

CASE

NUMBER:

99-300

Index for Case: 1999-00300

AS OF : 05/23/02

City of Cynthiana Water Treatment Plant

General Rates

Regular

WHOLESALE WATER SERVICE RATES

IN THE MATTER OF THE PROPOSED ADJUSTMENT OF THE WHOLESALE WATER SERVICE RATES OF THE CITY OF CYNTHIANA,
KENTUCKY

SEQ NBR	Date	Remarks
1	07/22/99	Order suspending rates from 8/1/99 to 12/31/99
2	(M) 08/20/99	RESPONSE TO ORDER OF JULY 22,99 (CITY OF CYNTHIANA BRUCE CLARK)
3	08/25/99	Order scheduling 9/8 informal conference
4	09/08/99	Order rescheduling 9/8 informal conference to 9/24
5	09/24/99	Informal Conference Memorandum
6	10/01/99	Order scheduling 3/1 hearing; sets procedural schedule; info due 11/15
7	(M) 11/15/99	RESPONSE TO PSC ORDE OF OCT 1,99 (BRUCE CLARK CITY OF CYNTHIANA)
8	(M) 11/19/99	SUPPLEMENTAL RESPONSE TO PSC ORDER OF OCT 1,99 (BRUCE CLARK CITY OF CYNTHIANA)
9	11/29/99	Order issuing data request; response due 12/13
10	(M) 11/29/99	SUPP REQ OF THE HARRISON CO WATER ASSOC TO THE CITY OF CYNTHIAN (DOROTHY MASTIN HARRISON CO WATER ASS)
11	(M) 12/13/99	RESPONSE TO PSC ORDER OF NOV 29,99 DATA REQ (MARK OVERSTREET CITY OF CYNTHIANA)
12	(M) 12/14/99	RESPONSE TO ORDER OF NOV 29,99 (BRUCE CLARK CITY OF CYNTHIANA)
13	(M) 12/16/99	MOTION FOR EXTENSION OF TIME (FAX) (DOROTHY MASTIN HARRISON CO WATER ASS)
14	(M) 12/20/99	MOTION FOR EXTENSION OF TIME TO FILE (DOROTHY MASTIN HARRISON CO WATER ASS)
15	12/29/99	Order setting forth a revised procedural schedule to be followed.
16	01/04/00	Data Request Order; response due 1/18
17	(M) 01/04/00	SUPPLEMENTAL REQ FOR INFO TO CITY OF CYNTHIANA (DOROTHY MASTIN HARRISON CO WATER)
18	(M) 01/11/00	REQUEST FOR EXTENSION OF TIME TO RESPOND TO DEC 13,99 ORDER (SHARON CARSON JACKSON ENERGY)
19	(M) 01/18/00	RESPONSE TO HARRISON CO WATER ASSOC SUPP DATA REQ DATED JAN 4,00 (MARK OVERSTREET CYNTHIANA)
20	(M) 01/18/00	RESPONSE TO PSC ORDER OF JAN 4,00 (MARK OVERSTREET CITY OF CYNTHIANA)
21	(M) 01/20/00	RESPONSE TO ORDER OF DEC 13,99 (SHARON CARSON JACKSON ENERGY)
22	(M) 01/20/00	SUPPLEMENTAL RESP TO HARRISON CO WATER ASSOC SUPPLE DATA REQ OF 1-4-0 (MARK OVERSTREET CITY OF CYNTHIANA)
23	(M) 01/21/00	SUPPLEMENTAL RESPONSE TO ORDER OF OCT 1,99 (MARK OVERSTREET CITY OF CYNTHIANA)
24	(M) 01/21/00	SUPPLEMENTAL RESPONSE TO ORDER OF JAN 4,2000 (MARK OVERSTREET CITY OF CYNTHIANA)
25	(M) 01/24/00	AMENDED RATE SCHEDULE (VIRGI FLORENCE WELLS CITY OF CYNTHIA)
26	(M) 01/24/00	TARIFF (CITY OF CYNTHIANA)
27	(M) 01/25/00	LETTER OF PROPOSAL IN ATTEMPT TO SETTLE WITH CITY OF CYNTHIANA (DOROTHY MASTIN HARRISON CO WATER)
28	(M) 01/27/00	SUPPLEMENTAL RESPONSE TO ORDER OF JAN 4,2000 (MARK OVERSTREET CITY OF CYNTHIANA)
29	(M) 01/28/00	INTERVENOR TESTIMONY (DOROTHY MASTIN HARRISON CO WATER ASS)
30	(M) 02/08/00	SUPP AMENDING INTERVENOR TESTIMONY OF TONY HAROVER & ACCOPANYING EX (DOROTHY MASTIN HARRISON CO WATER ASS)
31	(M) 02/14/00	RESPONSE TO APP A OF COMMISSION ORDER OF OCT 1,99 (CITY OF CYNTHIANA MARK OVERSTREET)
32	(M) 02/25/00	RESPONSE TO REQ FOR INFORMATION OF CITY OF CYNTHIANA (DOROTHY MASTIN HARRISON CO WATER)
33	(M) 02/29/00	SUPP RESPONSE TO PSC ORDER OF JAN 4,00 (MICHELE WHITTINGTON CITY OF CYNTHIAN)
34	(M) 02/29/00	SUPP RESPONSE TO ORDER OF OCT 1,99 (MICHELE WHITTINGTON CITY OF CYNTHIAN)
35	(M) 03/15/00	TRANSCRIPT FILED FOR HEARING ON MARCH 1,00 (CONNIE SEWELL COURT REPORTER)
36	(M) 03/20/00	MOTION TO APPROVE SETTLEMENT AGREEMENT (BRUCE CLARK CITY OF CYNTHIANA)
37	04/24/00	Order approving Settlement Agreement, as modified.
38	04/24/00	Letter to Mayor Wells, Bruce Clark & Mark Overstreet re: current billing rate
39	(M) 04/27/00	FOLLOW-UP ON CONVERSATION (DOROTHY JO MASTIN/CITY OF CYNTHIANA)
40	(M) 05/02/00	MOTION FOR PARTIAL RECONSIDERATION & REQ FOR INFORMAL CONFERENCE (CITY OF CYNTHIANA)
41	05/19/00	Order denying motion for partial reconsideration
42	(M) 05/26/00	FINAL TARIFF PER ORDERS OF 4/24 & 5/19/2000 (VIRGIE WELLS/CITY OF CYNTHIANA)
43	06/22/00	Letter to Bruce Clark & Dorothy Jo Mastin re: informal conference on 7/12/2000



Paul E. Patton, Governor
Ronald B. McCloud, Secretary
Public Protection and Regulation
Cabinet

Martin J. Huelsmann
Executive Director
Public Service Commission

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Chairman
Edward J. Holmes
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Gary W. Gillis
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June 22, 2000

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Stites and Harbison
421 West Main Street
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Dorothy Jo Mastin, Esq.
9 South Walnut Street
Cynthiana, Kentucky 41031

Re: Case No. 99-300
City of Cynthiana, Kentucky

Ladies and Mr. Clark:

Pursuant to the Commission's Order of May 19, 2000, an informal conference with Commission Staff has been scheduled for 1:30 p.m. on July 12, 2000 at the Commission's offices in Frankfort, Kentucky, to discuss the development of a mechanism for the City of Cynthiana to recover extraordinary costs.

Any questions regarding this conference should be directed to Gerald Wuetcher, Commission counsel, at (502) 564-3940, Extension 259.

Sincerely,

A handwritten signature in black ink, appearing to read "Martin J. Huelsmann".

Martin J. Huelsmann
Executive Director





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PUBLIC SERVICE COMMISSION
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CERTIFICATE OF SERVICE

RE: Case No. 1999-300
CITY OF CYNTHIANA WATER TREATMENT PLANT

I, Stephanie Bell, Secretary of the Public Service Commission, hereby certify that the enclosed attested copy of the Commission's Order in the above case was served upon the following by U.S. Mail on May 19, 2000.

See attached parties of record.

Stephanie D. Bell

Secretary of the Commission

SB/sa
Enclosure

Virgie Florence Wells
Mayor
City of Cynthiana
P.O. Box 67
Cynthiana, KY. 41031

William R. Toadvine
President
Harrison County Water
Association, Inc.
P. O. Box 215
Cynthiana, KY. 41031

Honorable Bruce F. Clark,
Honorable Mark R. Overstreet
Counsel for City of Cynthiana
Stites & Harbison
421 West Main Street
P.O. Box 634
Frankfort, KY. 40602 0634

Honorable Dorothy Jo Mastin,
Counsel for Harrison County Water
9 South Walnut Street
Cynthiana, KY. 41031

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

PROPOSED ADJUSTMENT OF THE WHOLESALE)
WATER SERVICE RATES OF THE CITY OF) CASE NO. 99-300
CYNTHIANA, KENTUCKY)

ORDER

The city of Cynthiana, Kentucky ("Cynthiana") has moved for partial reconsideration of the Commission's Order of April 24, 2000. Its motion poses the following issue: May the Commission give retroactive effect to a rate for wholesale water service when the municipal water supplier and public utility agree to the rate's retroactive application? Finding in the negative, we deny the motion.

On April 24, 2000, the Commission entered an Order approving with certain modifications a settlement agreement between Cynthiana and Harrison County Water Association ("HCWA"). Among the modifications which we made to this agreement was the rejection of any retroactive application of the agreed wholesale rate to water sales on and after March 1, 2000. Finding that this provision violated the rule against retroactive rate-making, we directed that the rate apply only to sales made on or after April 24, 2000.

In its motion for partial reconsideration, Cynthiana argues that the Commission erred in making this modification. First, it asserts that the Commission's approval of the Settlement Agreement did not "establish" rates and, therefore, approval of the agreement in its original form does not constitute retroactive rate-making. Second, it

asserts that retroactive application of the agreed rate is not contrary to the rule against retroactive rate-making as the purpose of the rule is to protect a utility's customers from unilateral rate increases for past use of services. Here, HCWA, the only affected customer, agreed to the retroactive application. Third, it argues that KRS 278.190(2) permits Cynthiana's assessment of the agreed rate for service on and after March 1, 2000.

The Commission finds no merit to Cynthiana's contention that our approval of the Settlement Agreement is not rate-making. The Settlement Agreement specifies the level of compensation that Cynthiana will receive for furnishing water service to HCWA. KRS 278.010(12) defines "rate" as

any individual or joint fare, toll, charge, rental, or other compensation for service rendered or to be rendered by any utility, and any rule, regulation, practice, act, requirement, or privilege in any way relating to such fare, toll, charge, rental, or other compensation, and any schedule or tariff or part of a schedule or tariff thereof

The Settlement Agreement therefore contains a new rate for water service that replaces the rate that is specified in Cynthiana's previous water supply contract with HCWA. As this rate differs from that which Cynthiana originally proposed and which the Commission suspended pursuant to KRS 278.190, it can become effective only upon Commission review and approval. That action is not a mere formality, but involves an extensive review of the agreed rate. It is this action, not any act of the parties, that constitutes the act of rate-making. See Kentucky Industrial Utility Customers, Inc. v. Kentucky Utilities Co., Ky., 983 S.W.2d 493, 501 (1998) ("The accountants for the Utility do not establish the rates for the consuming public. Only the regulatory commission has that responsibility.")

As a general rule, rates cannot be retroactively established. Analyzing this rule, one state supreme court succinctly explained its legal basis:

Pervading the utility rate making process is the fundamental rule that rates are exclusively prospective in application The rationale of this principle is that the Commission acts in a legislative capacity in exercising its rate making authority; that rate making orders have statutory effect; and, that, as such they are subject to the rules ordinarily applied to statutory construction.

The Supreme Court of the United States has also ruled that to accord a rate order retroactive effect, requires the "clearest mandate."

Applicability of the principle of non-retroactivity of rate making orders, has been considered in numerous jurisdictions all of which recognize the rule that statutory authority is an indispensable prerequisite to retroactivity of such orders.

Louisiana Power and Light Co. v. Louisiana Pub. Serv. Com'n, 377 So.2d 1023, 1028 (La. 1979) (citations omitted). Most courts have endorsed this reasoning. See, e.g., Petition of Elizabethtown Water Co., 527 A.2d 354 (N.J. 1987); New England Telephone and Telegraph Co. v. Pub. Util. Com'n, 358 A.2d 1 (Me. 1976); Michigan Bell Telephone Co. v. Michigan Pub. Serv. Com'n, 24 N.W.2d 200 (Mich. 1946).

Kentucky clearly follows the general rule. Kentucky courts have recognized that rate-making is a legislative act. Kentucky Industrial Utility Customers, Inc., 983 S.W.2d at 496 (1998) ("It is well settled that rate making is a legislative function"). Absent an express declaration, retroactive effect may not be given to a law. KRS 446.080(3). KRS Chapter 278 contains no provision that allows for retroactive application of a rate based upon the facts before us.

Cynthiana next argues that an exception to the rule against retroactive rate-making exists where the utility and the affected customer agree to retroactive changes. It cites, however, no Kentucky statute or case law in support of its position. The authority presented in support of such principle appears to be isolated holdings based upon unique statutes.

The Commission has previously rejected the proposition that the parties to a Commission proceeding can expand or broaden the Commission's powers. See City of Newport, Ky. v. Campbell County Kentucky Water Dist., Case No. 89-014 (Jan. 31, 1990) at 7 ("Additional powers cannot be conferred on an administrative agency by contract of the parties."). Moreover, Kentucky courts have held that the Commission's powers are purely statutory and that the Commission may not add or subtract from those powers. See, e.g., Pub. Serv. Com'n v. Attorney General, Ky.App., 860 S.W.2d 296, 298 (1993). In light of these holdings, we find no basis to create an exception to the rule against retroactive rate-making.

Cynthiana next argues that KRS 278.190 confers upon it the right to place the agreed rate into effect on March 1, 2000 subject to refund. KRS 278.190 provides that when a utility files a schedule stating new rates and an effective date for such rates, the Commission may suspend the operation of the proposed rates for five months from their effective date to investigate their reasonableness. At the end of that five-month period, if the Commission has failed to establish new rates, the utility may place the proposed rate schedule into effect after providing written notice to the Commission. Cynthiana argues that it proposed to increase its rate for wholesale service from \$1.61 per 1,000 gallons to \$2.20 per 1,000 gallons on June 2, 1999 and that this increase was not

suspended. Accordingly, it argues that it had the legal right to place the agreed rate of \$1.85 into effect on March 1, 2000. The Commission finds nothing in the record or the law to support this argument. Cynthiana filed a proposed rate schedule on June 2, 1999 that made no reference to a wholesale rate of \$2.20 per 1,000 gallons. This schedule merely restated Cynthiana's current wholesale rates but eliminated the rate block of \$1.27 per 1,000 gallons for all sales in excess of 500,000 gallons. The schedule did not contain an effective date. Had the proposed schedule become effective, Cynthiana would have been authorized to charge HCWA \$1.61 per 1,000 gallons for all monthly purchases over 100,000 gallons. Cynthiana subsequently advised the Commission in writing that it intended to place the proposed schedule of rates into effect on August 1, 1999.¹ On July 22, 1999, the Commission suspended the proposed rate schedule until December 31, 1999. Cynthiana subsequently modified its proposed rate schedule through the filed testimony of its witnesses. On January 24, 2000, it filed a new rate schedule requesting a wholesale rate of \$2.20 per 1,000 and requested that the rate be retroactive to August 1, 1999.

KRS 278.180 clearly states that a utility must provide the Commission with 30 days' notice of a proposed rate change. As Cynthiana's last rate schedule sought a retroactive increase, it did not comply with KRS 278.180 and failed to put the Commission on notice of any intent to put the proposed rate into effect on a date certain. Without such notice, the Commission is not required to take any action to

¹ Letter from Virgie Florence Wells, Mayor of Cynthiana, Ky., to Jordan Neel, Manager - Tariffs Branch, Public Service Commission (July 7, 1999).

suspend the proposed rate and the utility had no legal right to implement the new, unapproved rate.

The Commission recognizes that permitting only prospective application of the agreed rate may appear harsh, but it is consistent with the existing law. Moreover, the parties and their legal counsel should have been aware of the state of the law when negotiating the agreement as well as the time Commission review of the Settlement Agreement would consume, given the voluminous record. These factors should have been considered during negotiations.

IT IS THEREFORE ORDERED that:

1. Cynthiana's motion for partial reconsideration is denied.
2. Cynthiana's motion for an informal conference to discuss a mechanism for the recovery of extraordinary costs is granted. The Executive Director or his designated representative shall immediately make arrangements for convening such conference.
3. This case is closed and shall be removed from the Commission's docket.

Done at Frankfort, Kentucky, this 19th day of May, 2000.

By the Commission

ATTEST:

Deputy Wm H. Bowber
Executive Director

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

RECEIVED

MAY 01 2000

PUBLIC SERVICE
COMMISSION

In the Matter of:

PROPOSED ADJUSTMENT OF THE)
WHOLESALE WATER SERVICE RATES OF) ADMINISTRATIVE
THE CITY OF CYNTHIANA, KENTUCKY) CASE NO. 99-300

* * * * *

**MOTION FOR PARTIAL RECONSIDERATION
AND REQUEST FOR INFORMAL CONFERENCE**

The City of Cynthiana ("Cynthiana"), by and through the undersigned counsel, moves the Public Service Commission of Kentucky ("PSC") pursuant to KRS 278.400 to reconsider its Order of April 24, 2000, to the extent that the Order modified the effective date of Cynthiana's rate increase for wholesale water service to the Harrison County Water Association ("HCWA") from March 1, 2000 to April 24, 2000. In support of this motion, Cynthiana states as follows:

1. On February 29, 2000, Cynthiana and HCWA settled the above-referenced matter. On February 29th, a letter agreement dated March 1, 2000 that memorialized the terms of the settlement was delivered to Counsel for HCWA by facsimile ("Letter Agreement"). The Letter Agreement was executed by HCWA and was faxed to Counsel for Cynthiana on March 1, 2000. See Exhibit 1. That day, in lieu of the hearing scheduled for March 1, Counsel for Cynthiana met with Counsel for the PSC and provided to him the terms of Letter Agreement.
2. Under the terms of the agreement negotiated between Cynthiana and HCWA, the rate increase for HCWA was to be effective on March 1, 2000. This provision was crucial to the

parties' ability to settle the matter, thereby avoiding the costs and diversion of resources required by a hearing.

3. On March 3, 2000, Counsel for Cynthiana faxed a draft Settlement Agreement to Counsel for HCWA. See Exhibit 2.

4. By letter dated March 8, 2000, Counsel for HCWA returned an executed copy of the Settlement Agreement to Cynthiana. See Exhibit 3. However, the copy executed by HCWA was marked as "draft" and accordingly, Counsel for Cynthiana forwarded to Counsel for HCWA a "clean" copy of the Settlement Agreement for execution.

5. HCWA again executed the Settlement Agreement and attempted to return it to the Cynthiana City Attorney by U.S. Mail; however, the Agreement was lost in the mail. Counsel for HCWA contacted Counsel for Cynthiana and requested that another copy of the Settlement Agreement be delivered to her. HCWA executed the second copy of the Settlement Agreement and forwarded it to the Cynthiana City Attorney. The City Attorney then forwarded the fully executed copy of the Settlement Agreement, dated March 16, 2000, to Counsel for Cynthiana. Counsel for Cynthiana tendered the executed Settlement Agreement and a Motion to Approve Settlement Agreement to the PSC on March 20, 2000. Cynthiana's Motion requested that the PSC expedite its review of the Settlement Agreement.

6. On April 24, 2000, the PSC issued its Order approving in part the Cynthiana/HCWA Settlement Agreement, subject to two exceptions. First, the PSC rejected the March 1, 2000 effective date for the rate increase as "retroactive ratemaking." Second, the PSC found that the provision setting forth a mechanism for reimbursement of extraordinary costs to be unreasonably vague. With respect to the second exception, the PSC encouraged the parties to request an informal conference with the PSC to work out the terms of the recovery mechanism.

7. Cynthia respectfully requests that the PSC reconsider only that part of its Order rejecting the March 1, 2000 effective date for the rate increase. Although the Commission is not authorized to establish rates retroactively, the rule against retroactive ratemaking does not apply to the Commission's subsequent approval of rates to be effective as of the date of the Settlement Agreement. In such a case the rates are not established by the PSC and applied retroactively.

8. This distinction is critical. The law is clear that the approval of a settlement agreement that establishes new rates to take effect at some date prior to the Commissioner's approval of the settlement agreement does not constitute retroactive ratemaking. The case of Re Arkansas Power and Light Company, 83 PUR4th 12 (1987) (Exhibit 4) is typical. In that case, a utility and one of its customers entered into a contract calling for an adjustment affecting the rates from January 1, 1986 to the date of the Arkansas Commission's approval of the contract. Commission Staff questioned whether such a provision constituted retroactive ratemaking. The Commission held that the provision did not violate the policy against retroactive ratemaking:

[T]he prohibition against retroactive ratemaking usually arises when a utility *unilaterally* seeks to require an additional charge for past use of utility service. Ratemaking would also be 'retroactive' when a utility is required to retroactively lower charges and refund collections previously made under lawful and properly applied rates. This conduct is prohibited. However, no statute has been enacted, no rule has been promulgated, and no case law theory has been developed which prohibits consensual contractual changes since none of the aforesaid public policy considerations are present.

The general rule which proscribes retroactive rates is not applicable in a case such as this where there is a consensual arrangement in which the utility and the only customer impacted agree to a retroactive effective date and in which the rates paid by other ratepayers are not affected. . . . Thus the reason for the rule against retroactive ratemaking does not apply to the Contract now before the Commission.

Id. at p. 16 (emphasis supplied). Similarly, in Re Chesapeake & Potomac Telephone Company, 84 PUR4th 364 (1987) (Exhibit 5), the District of Columbia Public Service Commission upheld a provision in a settlement agreement that reduced rates effective January 1, 1987, despite the fact that the agreement was not filed with the Commission until February 10, 1987, and was not reviewed by the Commission until April 16, 1987. The Commission found that the rule against retroactive ratemaking did not apply in this situation:

The present situation is immediately distinguishable. In this case, two parties agreed on a rate reduction and the effective date of the reduction. The Commission is not ordering a retroactive rate change. The Commission did not review the agreement to ensure its reasonableness until April 16, 1987. In a similar instance involving agency review of electric service contracts, the D.C. Circuit held:

‘ . . . Such review does not, when good cause is shown, however, preclude enforcing the contract provision as of the date specified therein. Moreover, the Commission, in finding the Agreement reasonable, did not retroactively substitute a rate; it merely approved the rate change and effective date agreed upon by the parties.’

Id. at 370, quoting City of Piqua v. Federal Energy Regulatory Commission, 610 F.2d 950, 954, 955 (D.C. Cir. 1979).

9. As these cases make clear, Commission approval of the Settlement Agreement’s March 1, 2000 effective date does not constitute retroactive ratemaking. The provision in question was agreed to by the parties on March 1, 2000, and affects only the rates charged by Cynthiana to HCWA. Thus, the policy reasons for the rule against retroactive ratemaking, i.e., to protect a utility’s customers from unilateral rate increases for past use of services, are not applicable.

10. In making its decision on this Motion, the Commission further should consider the circumstances regarding the timing of the Settlement Agreement’s filing with the PSC. The parties executed a letter agreement on March 1, 2000 that set forth the rate increase and the

effective date of the rate increase of March 1st. For the reasons set forth above, the formal Settlement Agreement was not filed with the PSC until March 20th. An additional thirty-four days was needed for the Commission to render its Order. However, the facts clearly indicate that both parties to the Settlement Agreement intended that the new rates would take effect on March 1, 2000. Accordingly, the Commission should allow the parties to implement the terms of the settlement as set forth in the March 1, 2000 Letter Agreement.

11. In addition, with regard to the retroactive ratemaking issue, the City's proposed rates had been suspended until December 31, 1999 by a PSC Order dated July 22, 1999. On June 2, 1999, the City notified the PSC that its proposed rate would increase from \$1.61 per 1000 gallons to \$2.20. This proposed increased in rates was not suspended by a PSC Order. KRS 278.190 provides that the City has the right to implement its rates within 30 days of the filing, or upon notice to the PSC following the suspension period. Accordingly, in this case, the City of Cynthiana had the statutory right on March 1, 2000 to increase its rates to at least \$1.85 and did so on that date by filing written notice with PSC of the agreed-upon rate change.

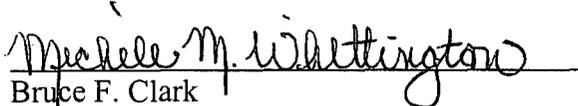
12. Reasons of equity and public policy fully support the requested reconsideration. The parties to this proceeding negotiated in good faith with the assistance of counsel and experts to reach an agreed-upon rate and an agreed-upon effective date. If the PSC were to disregard the effective date, which was crucial to the negotiations, then the parties' settlement efforts would be frustrated with the resultant increase in costs and delays. It must be remembered that the City has charged HCWA only \$1.27 for many, many months. It would indeed be harsh and inequitable for the PSC to compel the continuation of this low rate when the parties themselves agreed that it should end March 1, 2000.

13. Should the PSC determine that Cynthiana's motion is not well-founded, Cynthiana requests that the effective date for the rate increase remain April 24, 2000, so that the City is not penalized for requesting reconsideration of the Commission's Order.

14. In accordance with the suggestion contained in the Commission's Order, Cynthiana requests that the Commission schedule an informal conference so that the Commission can assist the parties in finding an acceptable mechanism for recovery of extraordinary costs. As the Commission noted, that provision of the Settlement Agreement was included so that the parties could deal with unforeseen costs as they arise. Cynthiana looks forward to working with HCWA and the Commission to achieve this objective in an acceptable fashion.

For all of the foregoing reasons, Cynthiana respectfully requests that the Commission modify its Order of April 24, 2000 to approve the March 1, 2000 effective date as set forth in the Settlement Agreement.

Respectfully submitted,

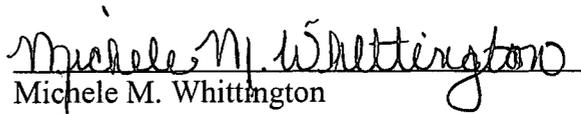

Bruce F. Clark
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421 West Main Street
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Telephone: (502) 223-3477
COUNSEL FOR CITY OF CYNTHIANA

CERTIFICATE OF SERVICE

I hereby certify that a copy of this Motion was served by first class mail, postage prepaid, upon the following parties of record, this 1st day of May 2000.

Dorothy Jo Mastin, Esq.
9 South Walnut Street
Cynthiana, KY 41031

William R. Toadvine, President
Harrison County Water Association, Inc.
P. O. Box 215
Cynthiana, KY 41031


Michele M. Whittington

SITES & HARBISON

ATTORNEYS

March 1, 2000

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William R. Toadvine, President
Harrison County Water Association, Inc.
Route 2, Box 277
Cynthiana, KY 41031

RE: Proposed Adjustment of the Wholesale Water Rates of the City of
Cynthiana, Kentucky, PSC No. 99-300

Dear Ms. Mastin and Mr. Toadvine:

The purpose of this letter is to set forth the agreed terms and conditions for settlement of the above-referenced matter. The parties have agreed as follows:

1. Effective March 1, 2000, the rate for all water purchased by Harrison County Water Association ("HCWA") from the City of Cynthiana will be \$1.85 per 1,000 gallons. HCWA understands and agrees that this rate will apply to HCWA only and will not be tied to or otherwise affected by the rates charged by Cynthiana to its city retail customers.

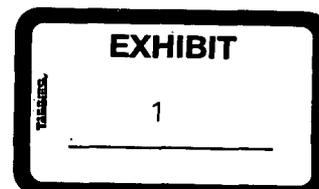
2. HCWA will reimburse Cynthiana for HCWA's proportionate share (45% or \$35,481.60) of the costs incurred by Cynthiana in connection with last summer's drought. HCWA will pay this amount to Cynthiana within seven days of the PSC's approval of the settlement agreement.

3. HCWA will reimburse Cynthiana for its proportionate share of any and all future emergency costs incurred by Cynthiana under terms and conditions to be agreed upon by the parties.

4. The settlement agreement will be contingent upon approval by the PSC.

If this letter accurately sets forth the terms of our discussions, please have Mr. Toadvine acknowledge the settlement agreement by signing below where indicated and fax a copy of the letter to me as soon as possible. Upon receipt of the executed copy of the letter I will contact the PSC and let them know that we have reached a tentative agreement. We will then draft a formal settlement agreement and forward it to you for review and comment.

Atlanta GA Frankfort, KY Hyden, KY Jeffersonville IN Lexington, KY Louisville, KY Washington DC



STITES & HARBISON
ATTORNEYS

Dorothy Jo Mastin, Esq.
William R. Toadvine, President
March 1, 2000
Page 2

Your assistance and cooperation in this matter are appreciated. Please do not hesitate to call me if you have any questions.

Very truly yours,

Bruce F. Clark
Bruce F. Clark

SEEN AND AGREED TO BY:

William R. Toadvine
William R. Toadvine, President
Harrison County Water Association, Inc.

BFC:mmw

cc: Mayor Virgie Wells
John Lair, Esq.

STITES & HARBISON

ATTORNEYS

March 3, 2000

VIA FACSIMILE (606) 235-0186

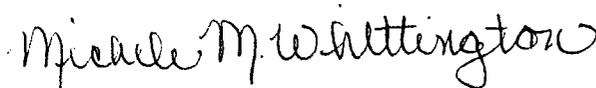
Dorothy Jo Mastin, Esq.
9 South Walnut Street
Cynthiana, KY 41031

RE: Proposed Adjustment of the Wholesale Water Rates of the City of
Cynthiana, Kentucky, PSC No. 99-300

Dear Ms. Mastin:

Attached is a draft of the settlement agreement in the above-referenced matter. Please review its terms and call me with your comments.

Sincerely,



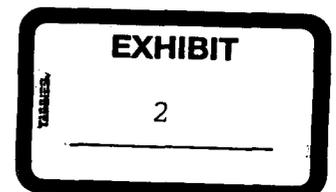
Michele M. Whittington

MMW:mmw
Attachment

CY015:000CY:3585:FRANKFORT

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Post Office Box 634
Frankfort, KY 40602-0634
(502) 223-3477
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Dorothy Jo Mastin

Attorney at Law

9 S. Walnut Street
Cynthiana, Kentucky 41031

Office: 606-235-9000
fax: 606-235-0186

March 8, 2000

FACSIMILE

(502) 223-4124

Hon. Michele M. Whittington
Stites & Harbison
Attorneys at Law
421 West Main Street
P. O. Box 634
Frankfort, Kentucky 40602-0634

Re: Settlement Agreement - City of Cynthiana, Kentucky and
Harrison County Water Association, Inc.

Dear Michele:

Please find enclosed a copy of the Settlement Agreement which William R. Toadvine has signed on behalf of the Harrison County Water Association, Inc.

If you have any questions about this, please feel free to contact me.

Thank you for your help in this matter.

Sincerely,



Dorothy Jo Mastin
Attorney at Law

DJM:sjw

Enclosure

Please mail request A.S.A.P.

EXHIBIT

3

SETTLEMENT AGREEMENT

THIS SETTLEMENT AGREEMENT made and entered into this ____ day of March, 2000, by and between the City of Cynthiana ("Cynthiana") and the Harrison County Water Association ("HCWA");

WITNESSETH:

THAT, WHEREAS, Cynthiana and the HCWA are currently parties to a Water Purchase Contract dated October 21, 1987, under which Cynthiana is obligated to sell water to the HCWA at certain rates; and

WHEREAS, as a result of the Kentucky Supreme Court case in Simpson County Water District v. City of Franklin, Ky., 872 S.W.2d 460 (1994), the water rates charged by city municipalities under contracts with regulated water utilities were found to be subject to the jurisdiction and approval of the Kentucky Public Service Commission ("PSC") and Chapter 278 of the Kentucky Revised Statutes; and

WHEREAS, in June of 1999, Cynthiana filed with the PSC a proposed increase in its water rate to HCWA; and

WHEREAS, HCWA requested that the PSC suspend and investigate Cynthiana's proposed rate adjustment and intervened in the proceedings, docketed as PSC Case No. 99-300; and

WHEREAS, the parties hereto, having participated in the administrative rate proceeding in Case No. 99-300, being desirous of settling their water rate dispute without further administrative litigation;

NOW, THEREFORE, in complete and full settlement of the issues raised in Case No. 99-300, styled "In the Matter of: Proposed Adjustment of the Wholesale Water Service Rates of the City of Cynthiana, Kentucky," the parties stipulate and agree as follows:

(1) Cynthiana shall establish and charge HCWA for all water purchased by HCWA the rate of \$1.85 per 1,000 gallons.

(2) The effective date of the water rate of \$1.85 referred to in Paragraph 1 above shall be March 1, 2000.

(3) HCWA shall further pay to Cynthiana in a lump sum \$35,481.60, said amount being HCWA's proportionate share (45%) of the costs incurred by Cynthiana associated with the drought of 1999. This amount shall be paid within seven (7) days of the PSC's approval of this Settlement Agreement.

(4) This Settlement Agreement shall be submitted to the PSC for approval, which approval shall be sought on an expedited basis by both parties. In the event the PSC does not approve the Settlement Agreement, including the March 1st effective date for the implementation of the new wholesale rate of \$1.85 per 1,000 gallons, this Settlement Agreement shall be null and void and of no effect.

(5) Cynthiana shall not seek further recovery or rate relief for any expenses or costs incurred by Cynthiana in connection with Case No. 99-300, the rate proceeding to be concluded by this Settlement Agreement; nor shall HCWA seek recovery of their costs from Cynthiana.

(6) In the future, HCWA shall not raise, assert or rely on the rate provisions contained in the Water Purchase Contract; which contract provisions shall be deemed to have been superseded by the PSC's regulatory authority over rates charged by non-regulated utilities to regulated utilities.

(7) Cynthiana shall and does hereby release HCWA from any claims under the Water Purchase Contract with reference to HCWA's water rates, the terms and agreements contained herein constituting full satisfaction of such claims.

(8) HCWA shall and does hereby release Cynthiana from any claims under the Water Purchase Contract with reference to HCWA's water rates, the terms and agreements contained herein constituting full satisfaction of such claims.

(9) HCWA agrees that, in the future, should an extraordinary condition (e.g., drought, floods, regulatory changes) cause an incremental and identifiable increase in the cost of water produced by Cynthiana for supply to Cynthiana retail customers, as well as to HCWA, HCWA shall reimburse Cynthiana for such costs within sixty (60) days after submission by Cynthiana, of an itemization of the costs incurred. The reimbursement shall be calculated by multiplying the amount of the submitted emergency costs times a fraction, the numerator of which is the wholesale water purchases by HCWA in the most recent 12 month period preceding the emergency, and the denominator of which shall be the total water production for the Cynthiana plant over the same period. Any disputes over the amount to be paid by HCWA, or the manner of such payment, shall be submitted to the PSC for resolution; provided that any payment ultimately made by HCWA shall include interest at eight percent (8%) per annum commencing after sixty (60) days following submission of the emergency costs to HCWA by Cynthiana.

(10) This Settlement Agreement has been duly executed by the lawful representatives of the City of Cynthiana and the HCWA, after full disclosure of the terms hereof, after consultation with counsel, and after appropriate resolution and/or ordinance approving the Settlement Agreement by the City Commission of the City of Cynthiana and the Board of the HCWA respectively.

CITY OF CYNTHIANA

HARRISON COUNTY WATER ASSOCIATION

William R. Iodvine

CY015:000CY:3569:FRANKFORT

ARKANSAS PUBLIC SERVICE COMMISSION

ARKANSAS PUBLIC SERVICE COMMISSION

Re Arkansas Power and Light Company

Intervenors: Ratepayers Fight Back, Arkansas Electric Energy Consumers, Great Lakes Chemical Corporation, and Arkansas Attorney General

Docket No. 86-243-TF, Order No. 9
April 13, 1987

ORDER *approving private rate contract negotiated by electric utility and industrial customer as an alternative to the construction of cogeneration facilities.*

1. Cogeneration, § 1—Competition—Discouragement—Rate contracts.

[ARK.] A private rate contract negotiated by an electric utility and an industrial customer was approved where it was found that absent the contract, the customer would leave the utility's system and construct its own cogeneration units, which would essentially represent duplicative and unnecessary capacity, and where the retention of load was considered vital to the public interest, especially since the private rate contract prohibited any financial harm caused by the contract from being imputed to other ratepayers.

2. Rates, § 250—Schedules and procedure—Retroactive effective date—Consensus as a factor.

[ARK.] Although there is a general rule prohibiting the retroactive application of rate increases to past-rendered service, that prohibition applies only to increases sought by a utility unilaterally, but the rule does not apply to contract rate changes negotiated consensually by the affected parties; rate changes

created by consensual agreement may be applied retroactively if the retroactive effective date was also agreed upon.

Before Johnston, chairman, and Qualls and Kearney, commissioners.

By the COMMISSION:

*ORDER
HISTORY*

On December 2, 1986, Arkansas Power & Light Company (AP&L), pursuant to Rule 11.01(d) of the Commission's Rules of Practice and Procedure, filed a letter application and a new tariff. The tariff was applicable to only one customer and is a Contract for Electric Service (Contract) between Great Lakes Chemical

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RE ARKANSAS POWER & LIGHT CO.

Corporation (Great Lakes) and AP&L. The filing letter stated that a number of the Appendices were not included with the Contract. AP&L and Great Lakes also filed a Joint Motion asserting that the excluded Appendices contained information of a proprietary nature containing trade secret information which should be withheld from public disclosure. AP&L and Great Lakes, therefore, sought an Order permitting the filing of the Appendices under protective seal and to limit public disclosure of the information.

Pursuant to Order No. 1, a hearing was held on December 16, 1986, for the limited purpose of considering the Joint Motion. This matter was resolved by the entry of Order No. 3 on December 18, 1986, which found that certain Appendices should be filed under protective seal and the information limited to the public.

The Commission also entered Order No. 2 on December 17, 1986, which directed Ratepayers Fight Back (RFB) and Arkansas Electric Energy Consumers (AEEC) to file revised Petitions for Intervention. By Order No. 4 entered on January 5, 1987, the Commission granted the interventions of RFB and AEEC.

Testimony was filed in this case by Mr. Michael B. Bemis, Mr. Alan C. Hardy, Mr. B. G. McGuire and Mr. James P. Herden on behalf of AP&L and Great Lakes. Mr. Basil L. Copeland, Jr., testified on behalf of RFB. The Staff presented the testimony of Dr. S. K. Berry and Ms. Karen Fricke. Neither the Attorney General nor AEEC presented any witnesses. A hearing was conducted by the Commission on February 3 and 4, 1987, and the parties filed briefs and reply briefs as ordered by the Commission.

THE CONTRACT

[1] The primary issue to be decided in this Docket is whether this tariff is just and reasonable for Great Lakes and AP&L and not contrary to the interests of all of AP&L's other customers.

Mr. Bemis testified that AP&L was convinced that Great Lakes would leave the AP&L system if the Contract were not approved. Approval of the Contract will permit AP&L to retain the Great Lakes load and Great Lakes will, therefore, continue making a contribution to AP&L's fixed costs of approximately \$3,000,000 per year related to this load. Mr. Bemis further testified that in return for the Contract rates, Great Lakes would defer plans to install new electric generating facilities and provide AP&L the option to construct AP&L-owned or jointly-owned cogeneration facilities in the future at a site or sites adjacent to Great Lakes' operations.

The option to install cogeneration facilities will exist for the initial 5-year term or any extension of the Contract. In addition, for the following thirteen (13) years, Great Lakes must give AP&L notice of Great Lakes' intent to construct, or cause to be constructed, a cogeneration plant or plants. Mr. Bemis testified that if such notice were given, AP&L could (1) provide an AP&L-owned cogeneration plant or plants, (2) negotiate with Great Lakes for an extension or replacement contract or (3) release Great Lakes to pursue cogeneration on its own. In the event AP&L exercises its option to install cogeneration, Great Lakes will purchase its thermal energy requirements from the plant or plants. Finally, Mr. Bemis testified that AP&L obtained an option to negotiate with Great Lakes the purchase of gas supplies which may be available to Great Lakes.

ARKANSAS PUBLIC SERVICE COMMISSION

Mr. Bemis also testified that this option was valuable to all AP&L customers because of the lead time involved in constructing a new central station coal-fired generating unit versus a cogeneration facility. A coal-fired unit requires between eight (8) to ten (10) years lead time whereas a cogeneration unit requires a short construction lead time and the units can be built in discreet increments. Mr. Bemis stated that construction of a cogeneration facility would permit AP&L to have sufficient capacity available to meet customer needs yet eliminate much of the risk associated with the construction of large central station generating units.

Mr. Bemis' testimony makes it clear that AP&L only has an option to construct cogeneration facilities under the Contract. Mr. Bemis acknowledged that before any additional generating facilities can be constructed, all necessary regulatory approvals must be obtained.

However, Mr. Bemis testified that AP&L was not seeking at this time approval of any regulatory treatment for cogeneration plants.

The testimony of AP&L witness Alan Hardy addressed specific provisions of the Contract. Mr. Hardy testified that the effective date of the Contract was January 1, 1986, subject to Commission approval. He explained that the Contract is for a term of five (5) years and will terminate at the end of 1990, although there are provisions in the Contract which allow it to be extended by mutual agreement.

Mr. Hardy testified that Great Lakes is required to make an initial payment to AP&L in the amount of \$10,480,769.23. Great Lakes will also pay AP&L each month the Contract rate times the total kWh usage plus the cost of any usage in excess of the fixed quantity to the extent a Reserve Account is not sufficient to

cover this cost. In addition, Great Lakes will be treated as a regular retail customer in calculating the Rider M33 (Grand Gulf Rider) and Rider M27 (Fuel Adjustment Clause Rider) and other surcharges. Great Lakes will continue to pay Rider M34 (Uncollected Revenue Surcharge Rider) or the Rider M35 (Unrecovered Fuel Surcharge Rider) as long as they are applicable.

Mr. Hardy testified that Article 14 of the Contract provides that all payments under it shall be disregarded for future ratemaking purposes. He explained that the Great Lakes accounts will be treated, for ratemaking purposes, as though prevailing standard rates were applicable and that Great Lakes' billing determinants will be accumulated under the appropriate rate schedules for rate design and cost of service purposes. The purpose of Article 14 is to insure that all other customers are unaffected by the Contract and that, for ratemaking purposes, Great Lakes will be assumed to have paid AP&L revenues on the basis of otherwise applicable retail rates. Mr. Hardy further testified that the regulatory treatment of Great Lakes under the Contract will insure that Great Lakes continues to make a substantial contribution to AP&L's fixed cost. The witness stated that if Great Lakes cogenerates its own power, the contribution to AP&L's fixed cost would no longer be borne by Great Lakes. It was Mr. Hardy's testimony that maintaining Great Lakes' load on AP&L's system is in the best interest of all customers since no other party will be subject to a revenue impact or change in revenue allocations during the term of the Contract.

Mr. B. G. McGuire testified on behalf of Great Lakes that in order to meet foreign competition it had to reduce costs, including electricity costs. Mr. McGuire testified that Great Lakes is engaged in

RE ARKANSAS POWER & LIGHT CO.

the production of bromine and bromine products from brine. It owns three plants in Union County, Arkansas, and the evidence shows that Great Lakes has a substantial impact on the economy of both Union County and the State.

Mr. McGuire further testified that Great Lakes had investigated the feasibility of owning and operating its own cogeneration plants and found this to be feasible. However, Great Lakes entered into contract negotiations with AP&L and concluded that the proposed Contract should be executed because it would permit the company to reduce its electric energy costs, permit it to remain an AP&L customer, which was convenient for Great Lakes, and permit it to have rates fixed for a period of time and to know what those rates would be during that specified period.

The witness for Great Lakes testified that if the Contract were not approved, he would strongly recommend to the President and Great Lakes' Board of Directors that it build cogeneration facilities. He further testified that any facilities built by Great Lakes would be designed to meet Great Lakes' own load and would be sized so as to purchase a small amount of power from AP&L.

Staff witness Dr. S. Keith Berry testified in favor of the Commission's approval of those portions of the Contract which are prospective in nature. Dr. Berry testified that Great Lakes is required to make a prepayment to AP&L in the amount of \$10,480,769.23 and that its energy rates during the five-year term would be significantly less than the energy charges to similarly situated customers. He further testified that the Contract guaranteed that other ratepayers will not pay higher rates as a result of any difference between the Contract and standard rate schedules.

Dr. Berry also testified that the loss of Great Lakes from the AP&L system would result in a net loss to AP&L of \$3,000,000 per year. The loss of Great Lakes would also mean the amounts collected from remaining customers under the provisions of the Grand Gulf rider, Rate Schedule M33, would be higher. Staff recommended approval of the Contract subject to certain conditions hereafter mentioned.

Based on the evidence offered by Mr. Bemis, Mr. Hardy, Mr. McGuire, Dr. Berry and Mr. Herden, the Commission finds that there is substantial evidence that the Contract is in the best interest of Great Lakes, AP&L and all of AP&L's other customers. The Commission finds that by entering into the Contract, Great Lakes will remain on AP&L's system and, therefore, continue to make a substantial contribution to AP&L's fixed costs. However, if Great Lakes were to cogenerate its own power, this contribution to AP&L's fixed costs would no longer be borne by Great Lakes. The Commission also finds that AP&L's retention of Great Lakes as a customer will result in no other party being subject to a revenue impact or change in revenue allocations during the term of the Contract. We adopt Mr. Hardy's testimony that Article 14.3 of the Contract provides that all payments shall be disregarded for future ratemaking purposes and that the Great Lakes accounts will be treated as though prevailing standard rates were applicable and the billing determinants will be accumulated under the appropriate rate schedules for rate design and cost of service purposes. This Contract provision insures that all other customers are unaffected by the Contract rates during its term since, for ratemaking purposes, Great Lakes will be assumed to have paid AP&L revenues on the basis of its oth-

ARKANSAS PUBLIC SERVICE COMMISSION

erwise applicable retail rates.

Several other issues were raised in this proceeding which are addressed as follows:

A. Assignment of the Contract

Staff witness Karen Fricke testified that under Article 11 of the Contract, AP&L's rights and options can be assigned. She testified that she was concerned that AP&L might assign its Article 7 rights and options to Electec, a wholly-owned subsidiary of Middle South Utilities, Inc. (MSU) with Great Lakes' approval. Electec is a nonregulated entity formed to pursue cogeneration opportunities through joint ventures. The Attorney General also expressed concern on this point.

Mr. Bemis testified that it was not AP&L's intent to assign its rights to Electec. In fact, Mr. Bemis testified that AP&L was willing to seek Commission approval prior to AP&L assigning its rights under the Contract.

The Commission finds that AP&L should, and therefore shall, obtain Commission approval of *any* decision by AP&L to exercise *any* of its rights under the Contract.

B. The Effective Date of the Contract

[2] Staff has questioned whether portions of the Contract constitute retroactive ratemaking and, if so, whether or not the Commission has the authority to approve those portions of the Contract. The other parties who addressed this issue, assert that Staff has cited no authority to support a prohibition of retroactive ratemaking where there is a consensual arrangement as there is in the case now before us.

Staff expressed concern about that

portion of the Contract which calls for an adjustment affecting the rates from January 1, 1986, to the date of the Contract approval by the Commission as retroactive. However, the prohibition against retroactive ratemaking usually arises when a utility *unilaterally* seeks to require an additional charge for past use of utility service. Ratemaking would also be "retroactive" when a utility is required to retroactively lower charges and refund collections previously made under lawful and properly applied rates. This conduct is prohibited. However, no statute has been enacted, no rule has been promulgated, and no case law theory has been developed which prohibits consensual contractual changes since none of the aforesaid public policy considerations are present.

The general rule which proscribes retroactive rates is not applicable in a case such as this where there is a consensual arrangement in which the utility and the only customer impacted agree to a retroactive effective date and in which the rates paid by other ratepayers are not affected. In this instance, the utility and the customer have agreed to a one time retrospective price measurement which is to their benefit individually and they have specifically promised to hold all other ratepayers harmless from any consequences of the Contract. Thus the reason for the rule against retroactive ratemaking does not apply to the Contract now before the Commission.

Staff makes reference to Ark. Stat. Ann. § 73-202 (D) (Supp. 1985) as "an express limitation on the authority of the Commission" with respect to retroactive ratemaking. While this may be true to an extent, it is not true to the extent Staff asserts. In the absence of any persuasive arguments to the contrary we find that § 73-202 (D) is specifically limited to Act

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RE ARKANSAS POWER & LIGHT CO.

253 of 1985, and is not a prohibition of general application.

The purpose of § 73-202 (D) is consistent with the Commission's general policy disfavoring retroactive ratemaking and within the context of Act 753 is a legislative expression of certain refund authority which the Commission possessed inherently. Ark. Stat. Ann. § 73-202 (D) is applicable to a situation which is not before the Commission in reviewing this Contract.

Staff implied during the February 4 hearing that the Commission had an established policy prohibiting retroactive ratemaking. This policy is sound when applied to protect parties against involuntary imposition of retroactive rates, but should not be extended arbitrarily to the agreement at issue in this proceeding.

AP&L, Great Lakes and the Staff have provided substantial evidence that the consensual agreement is in the interest of AP&L and Great Lakes and in the interest of all of AP&L's remaining customers. A failure to reach an agreement in the situation before us apparently would cause a large industrial customer to leave the AP&L system. Preventing this departure and the consequent loss of Great Lakes' contribution to AP&L's fixed costs is in the best interest of all of AP&L's customers.

The objective of the general prohibition of retroactive ratemaking is not violated by this consensual agreement wherein the customer and the utility have agreed to the terms of the Contract and have agreed to hold the general body of ratepayers harmless from the effects of the Contract. The reason for the general prohibition is not applicable to this Contract. The ultimate standard which the Commission must apply to its actions is whether the result of its actions are just and reasonable.

In implementing that standard, the legislature expressly enjoined the Commission with both the power and the duty to do all things, "whether herein specifically designated, that may be necessary or expedient. . ." Ark. Stat. Ann. 73-202(a) (Repl. 1979). Therefore, we find that approval of this Contract negotiated by the customer and the utility is just and reasonable and will not detrimentally affect the general body of ratepayers.

C. RFB's Objections

RFB addresses two primary issues in opposition to the proposed Contract; an assertion that the contract may violate §210 of the Public Utility Regulatory Policies Act of 1978 (PURPA), 92 Stat. 3144, as amended, and an assertion that the contract is anticompetitive and may violate antitrust laws.

PURPA encourages cogeneration by requiring electric utilities to sell power to qualifying facilities and purchase power from such facilities. In Docket No. 81-071-U, (51 PUR 4th 369), this Commission adopted rules to implement § 210 of PURPA and AP&L has complied with those rules by filing tariffs which provide that AP&L will make payments to qualifying facilities based on AP&L's avoided cost. Had Great Lakes chosen to cogenerate, it could have availed itself of those tariffs at any time, as well as any other provision of the Commission's Cogeneration Rules, including public hearings, in order to obtain a fair rate for sale of power or purchase of back-up power. In short, Great Lakes has available to it every incentive required by PURPA for the development of cogeneration.

No provision of PURPA requires this Commission to prohibit incentive rates or to force an unwilling customer to

ARKANSAS PUBLIC SERVICE COMMISSION

become a cogenerator. Great Lakes has voluntarily chosen not to pursue cogeneration at this time and has chosen instead to negotiate the proposed Contract with AP&L. The Commission has fulfilled its obligation under PURPA through the adoption of its Cogeneration Rules. Neither PURPA nor our rules require that the Commission encourage cogeneration to the extent of forcing utility customers who are unwilling to do so to build cogeneration or small power production facilities. The Commission can supply the legal environment necessary for development of cogeneration; however, the rest must come voluntarily from potential cogenerators and small power producers.

RFB alleges that the Commission must consider the effect of this Contract on competition. However, the Commission is of the opinion that RFB's arguments on competition are not on point in addressing the public interest in approving this Contract. PURPA does not address nor was it intended to create a competitive environment for electric utilities. It was designed to create an environment wherein cogenerators could develop alternate fuel sources and supplement the base load capacity of existing utilities, potentially reducing the need for electric utilities to build additional large generating plants. Competition or anticompetition, therefore, is not the issue in considering the public interest of this Contract and its affect on potential cogeneration.

In regard to RFB's contention that the Commission must examine the potential anticompetitive and antitrust aspects of this Contract the other parties assert that such questions are beyond the scope of

the Commission's jurisdiction or that such an examination in this instance is unwarranted. Although the Commission will not address herein our authority to conduct such a review, we have examined the record on this subject and the Commission does not find sufficient evidence of any anticompetitive or antitrust activity which would in our opinion outweigh the public benefit of approval of the contract.

Accordingly, for the reasons set forth hereinabove, we find that the proposed Contract between AP&L and Great Lakes, as clarified by the express representations and assurances made by AP&L on the record, is in the overall best interest of the public, Great Lakes, AP&L, and all other AP&L customers. We also find and hereby direct that AP&L shall seek prior Commission approval before attempting to exercise any of its rights under the Contract. Further, we specifically reserve judgment at this time regarding the appropriate regulatory treatment of any potential generation facility that may be constructed pursuant to the terms of this Contract.

IT IS, THEREFORE, ORDERED:

(1) That the Contract for Electric Service between Great Lakes and AP&L filed on December 2, 1986 should be and hereby is approved in accordance with the foregoing provisions and directives of this Order; and,

(2) That all documents filed in this docket with the Secretary of the Commission which are under protective seal shall be permanently sealed and access to the protected information shall not be disclosed unless specifically directed by an Order of this Commission.

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DISTRICT OF COLUMBIA PUBLIC SERVICE COMMISSION

DISTRICT OF COLUMBIA PUBLIC SERVICE COMMISSION

Re Chesapeake and Potomac Telephone Company

Additional petitioner: Office of People's Counsel of the District of Columbia

Intervenors: General Services Administration et al.

Formal Case No. 854, Order No. 8811

July 2, 1987

ORDER adopting settlement agreement requiring local exchange telephone carrier to reduce rates to account for the effects of the Tax Reform Act of 1986.

1. Procedure, § 31 — Disposal of issues — Settlements — Commission authority.

[D.C.] The commission has authority to adopt a proposed settlement agreement where it finds that the proposed agreement is in the public interest and is substantially acceptable to most of the parties.

2. Rates, § 250 — Effective date — Retroactive rate making — Rate settlement distinguished.

[D.C.] Approval of a settlement agreement providing for a rate reduction with an effective date prior to commission review of the agreement was held not to violate the prohibition against retroactive rate making.

3. Procedure, § 31 — Settlements — Moratorium provision — Effect on commission.

[D.C.] A moratorium provision in a rate settlement agreement, whereby the parties agreed not to seek any change in rates affecting the revenue requirement of the utility for a certain period of time, was not binding upon the commission.

4. Expenses, § 114 — Income taxes —

Tax Reform Act of 1986 — Rate reduction.

[D.C.] The revenue requirement of a local exchange telephone carrier was reduced to account for the lower federal corporate income tax expense under the Tax Reform Act of 1986; the reduction was accomplished by a commission-adopted settlement agreement.

5. Rates, § 147 — Cost of service — Income taxes — Tax Reform Act of 1986 — Rate reduction.

[D.C.] Pursuant to a commission-adopted settlement agreement, rates for local exchange telephone service were reduced to account for the cost-of-service effects of the Tax Reform Act of 1986; rates were reduced across the board for all classes of residential and commercial service, except certain Centrex services, Audiotex services, directory assistance, coin-telephone services, and preferred telephone number service.

By the COMMISSION:

EXHIBIT

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I. Introduc

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RE CHESAPEAKE & P. TELEPH. CO.

I. Introduction

On February 10, 1987, the Office of the People's Counsel (OPC) and The Chesapeake and Potomac Telephone Company (C&P or the Company), filed with the Public Service Commission of the District of Columbia (Commission) their "Joint Motion for Approval of Agreement of Stipulation and Settlement" (Joint Motion) of the matters at issue regarding the impact of the Tax Reform Act of 1986, Pub. L. No. 99-514, 100 Stat. _____ (1986) (Tax Reform Act), on C&P's rates. The Joint Motion states that a principal effect of the Tax Reform Act on C&P is to lower the Company's federal income tax expense as the result, *inter alia*, of a reduction in the corporate tax rate. The Joint Motion further states that OPC and C&P have been engaged in extensive discussions respecting the impact of the Tax Reform Act on C&P's revenue requirements, as well as appropriate related changes to the Company's rates for telephone services in the District of Columbia.

Based on these negotiations, the Joint Motion requests that the Commission approve an "Agreement of Stipulation and Settlement" which provides: (1) that C&P's base rates be reduced by \$3.3 million on an annual basis effective with service rendered on and after January 1, 1987; (2) that this rate reduction be accomplished by an across-the-board decrease in the base rates for all classes of service; and (3) that in light of this rate reduction, no party shall petition the Commission prior to January 1, 1988 for any change in rates affecting the Company's authorized revenue requirement.

After analyzing the filings at issue, the Commission determined that the

public interest would be served best by holding an evidentiary hearing to review the merits of the Joint Petition. To assist our review of the Joint Petition, the Commission directed its Staff, OPC, C&P, and intervenors to review the Joint Petition to determine whether it appropriately reflects the impact of the Tax Reform Act on C&P's earnings. Order No. 8682 (Feb. 13, 1987).

On February 17, 1987, the General Services Administration (GSA) on behalf of the Federal Executive Agencies filed a petition for leave to intervene. The Commission granted GSA intervenor status in Order No. 8729 (March 27, 1987).

The Commission held a hearing on April 16, 1987 at which witnesses for C&P, OPC, Staff and GSA testified on the merits of the proposed settlement. The Commission cross-examined each witness. Having conducted an evidentiary hearing in this matter, and having allowed adequate time for comment, the Commission will now decide the merits.

II. Position of the Parties

A. Office of the People's Counsel

Michael D. Dirmeier appeared as a witness on behalf of OPC. In his testimony, Mr. Dirmeier stated that he had evaluated the impact of the Tax Reform Act of 1986 on C&P as it would affect the Company in 1987. Mr. Dirmeier stated that the impact of the Tax Reform Act would be to reduce C&P's revenue requirement by approximately \$6.9 million. However, Mr. Dirmeier further stated that as a whole, the Settlement Agreement "reflects a reasonable compromise of [the parties] positions respecting the 1987 impact of the Tax Reform Act upon C&P's District

DISTRICT OF COLUMBIA PUBLIC SERVICE COMMISSION

of Columbia cost of service." Mr. Dirmeier testified that the settlement is in the public interest because it provides to C&P's customers the benefits of the Tax Reform Act now.

In regard to the proposed moratorium, OPC contends that the Settlement Agreement is binding on the two parties who signed the Agreement. However, OPC contends that a Commission decision adopting the Settlement Agreement would bind all persons. According to OPC, after the Commission adopts the Settlement Agreement, "all parties who had notice of and opportunity to participate in the instant case will be bound by its terms, including the 'moratorium provision' of the agreement." OPC Brief citing *Pennsylvania Gas & Water Co. v. Federal Power Commission*, 150 U.S. App.D.C. 151, 95 PUR3d 207, 463 F.2d 1242 (1972).

Concerning the effectiveness of the rate, OPC contends that approval of the Settlement Agreement will not result in retroactive ratemaking. OPC states that the parties to the Settlement Agreement have concluded that \$3.3 million represents the effect of the Tax Reform Act in 1987, and that the entire amount should be flowed through to ratepayers in an agreed upon period. Therefore, OPC concludes that this is not retroactive ratemaking.

B. The Chesapeake and Potomac Telephone Company

Richard G. Petzold, Assistant Comptroller of C&P, filed testimony stating that the Tax Reform Act of 1986 reduces C&P's overall revenue requirement by \$2,907,000. Moreover, Mr. Petzold states that because of the effect of regulatory changes ordered by

the Federal Communications Commission, "the settlement proposed by C&P and OPC will benefit C&P's customers beyond the anticipated realized impact of tax reform on C&P in 1987." Mr. Petzold states, however, that the settlement is in the public interest because it will permit C&P, and ultimately its ratepayers, to avoid the costs which would be incurred to litigate this matter.

Vincent C. Scott, District Staff Manager-Revenue Requirements for C&P, filed testimony concerning C&P's rate design proposal to reduce its rates by the settlement amount of \$3.3 million. Mr. Scott states that C&P proposes to reduce rates using a one time credit and an across-the-board rate decrease to obtain the \$3.3 million rate reduction. However, Mr. Scott states that some tariff services will not be reduced.

With respect to the moratorium provision, C&P indicates that all parties who had notice of this proceeding will be bound by the provision if the Settlement Agreement is adopted by the Commission. C&P states that the moratorium provision has no effect on GSA's petition in Formal Case No. 850 to investigate the reasonableness of C&P's rates, since it has already been denied. Thus, C&P states that there is no petition to decrease its rates pending in Formal Case No. 850.

In addition, C&P states that the increase in the subscriber plant factor (SPF) surcharge scheduled to take effect on January 1, 1988 does not involve the filing of a petition to change C&P's rates. C&P states that the increase is a scheduled annual update, as published in C&P's tariffs and as

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RE CHESAPEAKE & P. TELEPH. CO.

previously approved by the Commission. *Id.*, citing *Re Chesapeake & P. Teleph. Co.*, 6 DC PSC 325, 445 (1985); 7 DC PSC 344 (1986); 7 DC PSC 609 (1986). C&P contends that the Settlement Agreement does not alter the surcharge procedure already approved by the Commission.

C&P indicates that approval of the Settlement Agreement will not result in retroactive ratemaking. Rather, C&P states that the Settlement Agreement assures that the agreed upon rate reduction of \$3.3 million occurs during 1987.

With respect to C&P's proposed rate design, C&P states that the across-the-board reduction will not be applied to certain services such as messages placed sent-paid from Semi-Public and Public Telephone Service, Directory Assistance, Audiotex Service, Preferred Telephone Number Service, and the surcharges pertaining to Universal Emergency Number E911 Service and the Subscriber Plant Factor. C&P did not apply the reduction to Preferred Telephone Number Service because this service became effective in January, 1987, but C&P calculated its rate reduction proposal based on the pricing units and rates of services which were offered during 1986. C&P states that it did not reduce Audiotex Service charges because C&P's Audiotex tariff does not require the Audiotex sponsor to pass the savings on to its customers. C&P excluded the Directory Assistance charge because the reduction affected this rate by a fraction of a cent. C&P states that the Commission usually does not require rate reductions in such instances.

C&P states that its proposed rate design applies the across-the-board reduc-

tion to Centrex Rate Stability Plan B (RSP-B) and Facilities Based Tariff (FBT) customers. C&P states that the across-the-board reduction should be applied to these Centrex customers because it represents an "appropriate compromise" of the diverse interests of C&P's customers. Moreover, C&P states that these Centrex rates were set to cover costs, including a component for taxes. Since C&P will pay less taxes on income from its Centrex service as a result of the Tax Reform Act, C&P states that the reduction should apply to these services.

C. *The General Services Administration*

Charles W. King appeared as a witness on behalf of GSA concerning the impact of the Tax Reform Act of 1986 on C&P's rates. Mr. King recommended that the Commission accept the agreed upon settlement of \$3.3 million because "it appears to flow through a minimum of the benefits of the Act now, without the delay, uncertainty and cost of a protracted rate case."

However, GSA contends that the moratorium provision in the Settlement Agreement should be rejected. GSA states that Formal Case No. 850 is currently pending to investigate the reasonableness of C&P's authorized rate of return and the moratorium provision might be interpreted as precluding pleadings for rate adjustments in Formal Case No. 850. GSA states that the Commission's investigation in Formal Case No. 850 should not be covered by the moratorium.

In addition, GSA states that C&P should file in 1987 to change rates in 1988 to reflect further reductions in

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the Federal income tax rate for corporate taxpayers. GSA also notes that C&P's plan to reflect changes in the intrastate SPF on January 1, 1988 violates "the spirit if not the letter" of the moratorium.

With respect to C&P's proposed rate design, GSA states that the across-the-board reduction should apply to all services, including Centrex Service and Audiotex Service.

D. Commission Staff

Norman D. Reiser, Director of Accounting and Finance, appeared as a witness for the Commission's Staff concerning the impact of the Tax Reform Act of 1986 on C&P's rates. Mr. Reiser states that the \$3.3 million revenue reduction agreed to in the Settlement Agreement "represents a reasonable compromise between C&P and OPC as to the revenue impact of the Tax Reform Act on C&P . . ." Moreover, Mr. Reiser testified that the Settlement Agreement is in the best interest of the ratepayers. According to Mr. Reiser, if the Settlement Agreement is adopted, ratepayers would receive the benefit of the Tax Reform Act much quicker and the costs involved with a general rate case could be avoided.

Mr. Reiser also agrees that an across-the-board change in rates for all customer classes is a reasonable method of allocating the rate reduction. However, Mr. Reiser states that the across-the-board reduction proposed by C&P should be modified. Specifically, Mr. Reiser contends that the reduction should not apply to Centrex RSP-B and FBT customers because these customers have stabilized rates. According to Mr. Reiser:

"If the federal tax rates had increased

during 1987, both the RSP-B and FBT rates would have remained unchanged, and the remaining classes of ratepayers would have shouldered the burden of the increased tax expense. It is inequitable to award these same ratepayers reduced tariff rates when they would not be liable for cost of service increases during the same period."

In addition, Mr. Reiser states that C&P has not adjusted downward the rates for Audiotex Service, Preferred Telephone Number Service and certain services where the impact of the rate decrease is less than one full cent. An example of this is Directory Assistance calls.

III. Supplemental Statement of C&P and OPC

During the hearing, a number of questions were asked by the Commission concerning Staff's testimony that certain rate design aspects of the Settlement Agreement should be modified. In addition, the Commission asked C&P and OPC to clarify whether the rate design was part of the Settlement Agreement. In response to the Commission's questions, on April 17, 1987, C&P and OPC filed a supplemental statement concerning the scope of the proposed Settlement Agreement. C&P and OPC state:

"In reaching the Proposed Settlement, it was not the intention of C&P or OPC to foreclose the Commission from modifying the rate design proposed by the parties to achieve the \$3.3 million reduction in rates. Therefore, if the Commission determines, based on the record in this case, to modify the rate design proposed by C&P and OPC, such modification will not nullify the

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settlement agreement reached by C&P and OPC.”

IV. *The Commission's Authority to Act*

Before reaching the merits of this case, procedurally there are three questions that the Commission must first address — (1) the authority of the Commission to adopt a proposed Settlement Agreement; (2) whether the settlement constitutes retroactive ratemaking; and (3) whether the Commission can legally act on the moratorium provision of the Settlement Agreement.

A. *Commission Authority to Adopt a Proposed Stipulation and Settlement Agreement*

[1] It is a well-settled proposition that the Commission has the authority to adopt the terms of stipulations or settlement agreements. It is quite clear that this Commission has the authority to permit the settlement of issues where none of the parties has interposed an objection. See, e.g., *Re Chesapeake & P. Teleph. Co.*, 6 DC PSC 207, 224 (1985). Moreover, the Court has recognized that the Commission “has both the flexibility to consider settlement offers and the responsibility to evaluate such offers ‘on their merits in light of the evidence of record even if the proposed settlement fails to receive the unanimous support of the parties.’” *United States v. District of Columbia Pub. Service Commission*, 465 A.2d 829, 832 (D.C. 1983), citing, *Metropolitan Washington Board of Trade v. District of Columbia Pub. Service Commission*, 432 A.2d 343, 363, Footnote 40 (D.C.1981). Thus, the Commission has the authority to approve a settlement “which is substan-

tially acceptable to most, if not all, of the parties.” *Id.*

In this instance we note that none of the parties opposed the settlement. Although GSA has opposed the moratorium provision, it supports the Settlement Agreement. Moreover, as discussed *infra*, GSA’s concerns with the moratorium provision are unfounded.

Moreover, the District of Columbia Administrative Procedure Act, D.C. Code Section 1-1509(a) provides that, unless otherwise required by law, any contested case¹ may be disposed of by stipulation, agreed settlement, consent order, or default.

Finally, the Commission has in the past recognized that settlements can produce results which are sound in all respects while substantially conserving the time and resources of the Commission and the parties. Accordingly, the Commission has ratified settlements before. See, e.g., *Re Potomac Electric Power Co.*, 5 DC PSC 162 (1984). Therefore, the Commission finds that there is more than sufficient statutory and case law to make a determination that the Commission clearly has the authority to adopt a proposed Settlement Agreement where it finds that the Agreement is in the public interest.

B. *Retroactive Ratemaking*

[2] The Joint Motion, along with the Settlement Agreement, was filed on February 10, 1987. The Settlement Agreement provides that the rate reduction is to be effective with service rendered on and after January 1, 1987,

¹The principal manifestation of a contested case is its character as a quasi-judicial proceeding based on particular facts and information, and immediately affecting the specific interests of parties. *Citizens Assn. of Georgetown, Inc. v. City of Washington*, 291 A.2d 699 (D.C.1972).

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irrespective of the date of the Commission's Order approving the Settlement Agreement. Consequently, the question that arises is whether this provision constitutes retroactive ratemaking.

It is a cardinal principle of ratemaking that a utility may not set rates retroactively to recoup past losses, nor prescribe rates on that principle. See *Nader v. Federal Communications Commission*, 172 U.S.App.D.C. 1, 520 F.2d 182, 202 (1975); *Payne v. Washington Metropolitan Area Transit Commission*, 134 U.S.App.D.C. 321, 415 F.2d 901 (1968). In addition, the law does not require the Company to give up for the benefit of its customers any part of its profits from past operations. Profits of the past cannot be used to sustain lower rates. See *New Jersey Pub. Utility Comrs. v. New York Teleph. Co.*, 271 U.S. 23, PUR 1926 C 740, 70 L.Ed. 808, 46 S.Ct. 363 (1926). The retroactive ratemaking rule thus bars the Commission from setting prospective rates in order to recoup past profits or losses.

The present situation is immediately distinguishable. In this case, two parties agreed on a rate reduction and the effective date of the reduction. The Commission is not ordering a retroactive rate change. The Commission did not review the agreement to ensure its reasonableness until April 16, 1987. In a similar instance involving agency review of electric service contracts, the D.C. Circuit held:

"... Such review does not, when good cause is shown, however, preclude enforcing the contract provision as of the date specified therein. Moreover, the Commission, in finding the Agreement reasonable, did not retroactively substitute a rate; it merely approved the rate change and effective date

agreed upon by the parties." *City of Piqua v. Federal Energy Regulatory Commission*, 198 U.S.App.D.C. 8, 33 PUR4th 89, 610 F.2d 950, 954, 955 (1979).

Similarly, here, the Commission will not substitute retroactively a rate. Rather, the amount of the unanimous settlement takes into account the twelve-month time period beginning January 1, 1987.

Accordingly, the Commission finds that the provision in the Settlement Agreement which provides for the effectiveness of the rate reduction to be January 1, 1987 is not retroactive ratemaking.

C. *The Moratorium Provision of the Settlement Agreement*

[3] The Settlement Agreement also provides "that no party shall petition the Commission prior to January 1, 1988 for any change in rates affecting the Company's authorized revenue requirement."

The terms of the moratorium provision do not purport to bind the Commission. We agree with this. Further, the Commission's statutory obligation does not allow the Commission to temporarily cease regulation of C&P:

"Upon its own initiative or upon reasonable complaint made against any public utility that any of the rates, tolls, charges, or schedules, or services, or time and conditions of payment, or any joint rate or rates, schedules, or services, are in any respect unreasonable or unjustly discriminatory, or that any time schedule, regulation, or act whatsoever affecting or relating to the conduct of any street railway or common carrier, or the production, transmission, delivery, or furnishing of heat, light, water, or power, or any service in connection therewith, or the conveyance of any telegraph or tele-

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phone message, or any service in connection therewith, is in any respect unreasonable, insufficient, or unjustly discriminatory, or that any service is inadequate or cannot be obtained, *the Commission may in its discretion, proceed, with or without notice, to make such investigation as it may deem necessary or convenient. But no order affecting said rates, tolls, charges, schedules, regulations or act complained of shall be entered by the Commission without a formal hearing.*" D.C. Code § 43-608 (1986) (emphasis added).

This section states the Commission's fundamental duty to conduct, at any time, investigations into the reasonableness of utility rates and services. The Commission cannot barter away this obligation. In effect, it cannot statutorily abdicate its essential function. *See* Order No. 8696 (March 6, 1987). Thus, by approving this settlement proposal, the Commission could not command itself not to consider, in its discretion, any requests for investigating of utility matters.

The question arises as to whether the moratorium provision applies to persons other than OPC and C&P. These two parties assert that public notice of this proceeding, is ample basis to bind OPC, C&P and all others. The Commission need not decide this question. As we stated, the Commission cannot barter away its jurisdiction. Thus, if any person shall during the remainder of this year, petition the Commission for review of C&P's rates, we shall independently make a determination as to the merits of the petition. If there is reasonable basis, the Commission is prepared to proceed in its own right.

Accordingly, GSA's concerns about the effect of the moratorium provision on Formal Case No. 850 are un-

founded. In Formal Case No. 850, the Commission is investigating C&P's revenues. If the Commission's investigation indicates that C&P's rates should be reviewed, the Commission may proceed to initiate a rate proceeding.

Similarly, GSA's objection to the moratorium provision because it will prevent C&P from filing in 1987 to change rates in 1988 to reflect further reductions in the Federal income tax rate, is unfounded. C&P has stated that it would begin discussions in 1987 on the effect of the Tax Reform Act for 1988. Moreover, the Commission could proceed on its own to examine this issue.

The Commission also rejects GSA's argument that C&P's planned increase in the SPF surcharge on January 1, 1988 violates the moratorium. As C&P correctly states, the increase in the SPF surcharge has been previously approved by the Commission. *See Chesapeake & P. Teleph. Co.*, 6 DC PSC 325 (1985). Accordingly, the increase would not involve the filing of a petition to change C&P's rates.

V. Discussion

A. Reasonableness of the Proposed Revenue Reduction

[4] A principal impact of the Tax Reform Act on C&P is to lower its federal corporate income tax expense from 46% to 40% in 1987. C&P presently provides telephone service in accordance with its tariffs approved by the Commission in Formal Case No. 827, effective January 1, 1986. The federal corporate income tax rate applicable to C&P during the test period in Formal Case No. 827 and at the time the Commission issued its Final Order was 46%. Consequently, OPC and C&P engaged

DISTRICT OF COLUMBIA PUBLIC SERVICE COMMISSION

in extensive discussions concerning the impact of the Tax Reform Act on C&P's revenue requirements, as well as appropriate related changes to the Company's rates for telephone service.

In determining whether the settlement amount of \$3.3 million is reasonable, we first look to what testimony was proffered on the dollar impact of the Tax Reform Act. C&P states that the Tax Reform Act will reduce C&P's revenue requirement by approximately \$2.9 million. OPC states that the impact of the Tax Reform Act is approximately \$6.9 million, but that the settlement figure of \$3.3 million is reasonable. Staff states that the \$3.3 million settlement is both reasonable and in the public's interest. GSA also states that the settlement amount is reasonable.

Based on this testimony, the Commission finds that the dollar impact of the Tax Reform Act on C&P is in a range of \$2.9 million and \$6.9 million. As a result, the ratepayers charge for service will be reduced by \$3.3 million during 1987. Given the protracted nature of litigation, it is clear that the ratepayers would receive substantially less during 1987 if this matter were fully litigated. Second, litigation brings costs, including attorneys fees, court reporter fees, transcript costs, etc., that a settlement avoids. Last, there is no guarantee that, if this matter were litigated, the ratepayers would receive \$3.3 million. In fact, the Commission could reasonably find that the impact of the Tax Reform Act is less than \$3.3 million.

We conclude that a settlement of this case in the amount of \$3.3 million fairly balances the competing interests of ratepayers and C&P's investors and is, therefore, in the public interest.

Moreover, no interested parties objected to the Settlement Agreement.

B. *Reasonableness of Rate Design Proposal*

[5] The proposed settlement calls for the reduction in rates to be "across-the-board." The Commission agrees that, for the most part, this is prudent. As Staff witness Reiser noted, an across-the-board change preserves the rate design we established in Formal Case No. 827. In addition, by applying the reduction across-the-board, the Commission uses the most administratively efficient mechanism, as employed in other settlements. *See, e.g.*, Order No. 8696 (March 6, 1987).

Nevertheless, based on the record evidence, the Commission concludes that the proposed rate design submitted by the parties should be modified in two respects. First, the rate reduction should not be applied to RSP-B and FBT Centrex customers. Second, the rate reduction should be applied to Audiotex Services customers.

The Commission established stabilized rates for RSP-B and FBT customers in Formal Case No. 828. The stabilized rates protect these customers from rate increases. It is not until January 1, 1988, that RSP-B ratepayers will incur any increase in tariff rates, and then any increase would be limited to the cost of living index. Thus, if federal tax rates had increased during 1987, both RSP-B and FBT rates would have remained unchanged. The Commission agrees with Staff's analysis that it would be inequitable to award these ratepayers reduced rates when they are not liable for cost of service increases. Accordingly, C&P is directed to amend its rate design proposal implementing the rate

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reduction to exclude RSP-B and FBT customers.

The rate reduction should be applied, however, to Audiotex Service customers. Audiotex Service customers are subject to potential rate increases, and, therefore, they should benefit from the proposed rate decrease. Accordingly, C&P is directed to include Audiotex Service customers in the rate reduction.

The Commission finds that C&P's rate design in all other respects is reasonable, including its decision to exclude the Directory Assistance charge and Preferred Telephone Number Service. The Commission will not require a reduction in the Directory Assistance charge since the reduction will be a fraction of a cent. In addition, the Commission finds that it is reasonable for C&P to apply the reduction to services in effect in 1986, and, therefore, to exclude Preferred Telephone Number Service since it was not in effect until 1987.

VI. Conclusion

We conclude that the settlement amount is within a range of reasonableness. In addition, we consider the adoption of the terms and conditions of the settlement as a resolution on the merits that will generate substantial savings of time and resources. Further, the across-the-board application of the reduction as modified above, is appropriate. We find that the Agreement of Stipulation and Settlement, negotiated between and entered into by the Office of the People's Counsel and The Chesapeake and Potomac Telephone Company, is a reasonable compromise of diverse positions.

The Commission appreciates the spirit in which OPC and C&P have

come together to negotiate what could have become a litigated matter. This Commission is of the view that settlements in the public interest should be encouraged. In view of the expressed terms of the Settlement Agreement, this Commission concludes that absent a finding that the agreement is contrary to the public interest, unjust, and unreasonable, the Commission will accept it as modified.

Therefore, we find that our adoption of the settlement terms as a resolution on the merits is in the public interest. Accordingly, we will grant the "Joint Motion for Approval of Agreement of Stipulation and Settlement" filed February 10, 1987 by OPC and C&P. In addition, for the foregoing reasons, we will approve the "Agreement of Stipulation and Settlement" appended to the Joint Motion. We make the following findings of fact and conclusions of law.

FINDINGS OF FACT AND CONCLUSIONS OF LAW

1. The effect of the Tax Reform Act of 1986 is to make C&P's effective tax rate 40 percent for 1987.

2. The parties have agreed, and the Commission has accepted for purposes of this settlement, that the impact of the Tax Reform Act of 1986 is to lower C&P's revenue requirement by \$3.3 million.

3. The proposed across-the-board reduction in the rates for service, as modified, with a one-time credit is a just and reasonable method to effectuate the reduction in C&P's revenue requirement caused by the Tax Reform Act.

4. C&P and OPC have agreed not to seek rate changes prior to January 1, 1988.

DISTRICT OF COLUMBIA PUBLIC SERVICE COMMISSION

5. The proposed settlement as adopted by the Commission will produce rates that are just, reasonable, and nondiscriminatory.

6. The rates which we approve fairly balance the competing interests of both the ratepayers and C&P investors, and the rates are therefore in the public interest.

THEREFORE, IT IS ORDERED THAT:

1. The "Joint Petition for Investigation" filed February 10, 1987 by OPC and C&P, is granted;

2. The "Joint Motion for Approval of Agreement of Stipulation and Settlement," filed by OPC and C&P, relative to the impact of the Tax Reform Act of 1986 on the Company's rates

for telephone service, is hereby granted;

3. The "Agreement of Stipulation and Settlement," appended to the Joint Motion, is in the public interest, and the same is hereby approved;

4. The rate reduction of \$3.3 million in the C&P base rates shall be reflected in customer bills rendered on and after August 1, 1987; and

5. C&P shall refile revised tariff sheets implementing this Order, to reflect the modifications to its rate design specified in this Order and an effective date no later than July 8, 1987, consistent with 15 D.C.M.R. § 296, 34 D.C. Reg. 1178.

6. C&P's tariff shall become effective as provided in paragraph no. 4 unless otherwise ordered by the Commission.

Dorothy Jo Mastin
Attorney at Law

9 S. Walnut Street
Cynthiana, Kentucky 41031

Office: 606-235-9000
Fax: 606-235-0186

April 25, 2000

Mr. Martin Huelsmann
Executive Director
Public Service Commission
211 Sower Boulevard
P. O. Box 615
Frankfort, Kentucky 40602

Re: Harrison County Water Association, Inc.
City of Cynthiana Rate Increase - Case No. 99-300

Dear Mr. Huelsmann:

This letter is a follow-up on our conversation with Brent Kirtley of your office on Friday, April 21, 2000. From this conversation, it is our understanding that it is possible for Harrison County Water Association, Inc. to recoup the payment of \$35,481.60, which represents Harrison County Water Association's proportionate share of the City of Cynthiana's drought expenses in 1999, and was a part of the settlement agreement between the City of Cynthiana and Harrison County Water Association in the above styled case. This recoupment would be possible if Harrison County Water Association can assess a surcharge of \$.75 to each of our customers bills each month for twelve (12) months.

If this surcharge can be passed through as part of the purchased water agreement between Harrison County Water Association and our customers as outlined in paragraph one, please advise.

Sincerely,


Dorothy Jo Mastin
Attorney at Law

DJM:sjw

cc: Mr. Brent Kirtley, Staff
Hon. Gerald Wuetcher, General Counsel

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211 SOWER BOULEVARD
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FRANKFORT, KY. 40602
(502) 564-3940

CERTIFICATE OF SERVICE

RE: Case No. 1999-300
CITY OF CYNTHIANA WATER TREATMENT PLANT

I, Stephanie Bell, Secretary of the Public Service Commission, hereby certify that the enclosed attested copy of the Commission's Order in the above case was served upon the following by U.S. Mail on April 24, 2000.

See attached parties of record.

Stephanie J. Bell
Secretary of the Commission

SB/hv
Enclosure

Virgie Florence Wells
Mayor
City of Cynthiana
P.O. Box 67
Cynthiana, KY. 41031

William R. Toadvine
President
Harrison County Water
Association, Inc.
P. O. Box 215
Cynthiana, KY. 41031

Honorable Bruce F. Clark,
Honorable Mark R. Overstreet
Counsel for City of Cynthiana
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Honorable Dorothy Jo Mastin,
Counsel for Harrison County Water
9 South Walnut Street
Cynthiana, KY. 41031

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

PROPOSED ADJUSTMENT TO THE WHOLESALE)
WATER RATES OF THE CITY OF CYNTHIANA,) CASE NO. 99-300
KENTUCKY)

ORDER

The City of Cynthiana, Kentucky ("Cynthiana") and Harrison County Water Association ("HCWA") have moved for approval of a Settlement Agreement in this matter. Having carefully reviewed this Agreement, the Commission finds that it should be approved subject to certain modifications.

On July 22, 1999, Cynthiana filed with the Commission a revised rate schedule for its wholesale water service to HCWA. It proposed to eliminate from its existing rate schedule its lowest rate block and to charge a monthly rate for \$1.61 per 1,000 gallons for all water purchases in excess of 100,000 gallons. Currently, Cynthiana charges a rate of \$1.27 per 1,000 gallons for all water purchases in excess of 500,000 gallons.¹ Upon HCWA's objection and request for investigation, the Commission suspended the proposed rate revision and initiated this proceeding. During this proceeding, Cynthiana made several amendments to its proposed wholesale rate schedule. It ultimately

¹ Cynthiana's current wholesale rate schedule is:

First 2,000 gallons	\$8.05 per 1,000 gallons
Next 8,000 gallons	\$3.05 per 1,000 gallons
Next 490,000 gallons	\$1.61 per 1,000 gallons
Over 500,000 gallons	\$1.27 per 1,000 gallons

proposed to replace its declining block rate schedule with a wholesale rate of \$2.15 per 1,000 gallons.

On March 20, 2000, Cynthiana and HCWA submitted for Commission approval an agreement on the rates for wholesale water service. The principal terms of this Agreement, a copy of which is appended hereto, are:

1. Cynthiana may, effective March 1, 2000, assess a rate of \$1.85 per 1,000 gallons for wholesale water service to HCWA.

2. Within seven days of Commission approval of the Agreement, HCWA shall pay to Cynthiana the sum of \$35,481.60 for its proportional share of costs incurred by Cynthiana and related to the 1999 Drought.

3. Each party waives any claim to reimbursement or recovery of its expenses incurred in connection with the proceeding.

4. Cynthiana may assess HCWA for "incremental and identifiable increase[s] in the cost of water" that result from "an extraordinary condition." This assessment shall be determined by multiplying the costs related to the extraordinary condition by the ratio of HCWA's water purchases to Cynthiana's total water production for the 12 months immediately preceding the condition. Any disputes regarding this assessment may be submitted to the Commission for resolution. During the pendency of any disputed assessment, interest shall accrue on the assessment at a rate of 8 percent per annum.

The parties have further agreed that the Agreement will not become effective unless the Commission approves it in its entirety.

After careful review of the Agreement and the evidence of record, the Commission finds that, with two exceptions, the Agreement's provisions are reasonable and lawful and should be approved. We find that the proposed wholesale water service rate is within the zone of reasonableness. We further find that the proposed payment of \$35,481.60 for extraordinary drought expenses represents an acceptable means of

recovering those expenses in lieu of a temporary rate surcharge or their inclusion in general rates.

However, the Commission finds that the Agreement's provision for retroactive application of the proposed wholesale rate violates the rule against retroactive rate-making and is therefore unlawful. KRS Chapter 278 does not authorize the Commission to establish rates retroactively. See Pub. Serv. Comm'n v. Diamond State Tele. Co., 468 A.2d 1285, 1298 ("A pervasive and fundamental rule underlying the utility rate-making process is that 'rates are exclusively prospective in application. . .'") (Del. 1983).

The Commission further finds the Agreement's provision for the assessment of extraordinary costs in its current form is unreasonably vague. The parties fail to define key terms in their proposal such as "extraordinary condition" and "cost of water produced." They fail to state whether the costs that will passthrough this mechanism include amounts expended for capital expenditures. They fail to explain how a cost will be determined to represent "an incremental and identifiable increase." They have not established any base period against which to measure or assess such costs. Finally, the parties have not addressed how HCWA is to pay the assessment. If capital expenditures are recoverable under the mechanism, for example, will HCWA be required to pay its portion in a lump sum payment or over the service life of the capital equipment?

The Commission empathizes with the parties' desire for an orderly and systematic method of adjusting rates to reflect significant changes in the cost of water. We find much merit in the use of automatic adjustment mechanisms that would adjust a water utility's base rates to reflect changes in the cost of water production. The parties'

proposal, however, is not likely to achieve this result. Its vague terms are more likely to result in litigation.

While rejecting this provision, the Commission encourages the parties to develop a more detailed mechanism for submission. Such a mechanism should consider the issues raised in this Order and should also consider how HCWA would recover from its ratepayers any assessment of costs that Cynthiana makes. When designing such mechanism, the parties should consider whether any assessment by Cynthiana may be recovered by HCWA through its purchased water recovery mechanism. We further encourage Cynthiana to request an informal conference with Commission Staff to discuss the design and operation of any proposed recovery mechanism.

IT IS THEREFORE ORDERED that:

1. The Settlement Agreement, as modified in Ordering Paragraphs 2 and 3 below, is approved.
2. The rate of \$1.85 per 1,000 gallons is approved for water service that Cynthiana provides to HCWA on and after the date of this Order.
3. The proposed mechanism for the immediate passthrough of costs related to extraordinary conditions, which is set forth in Paragraph 9 of the Settlement Agreement, is denied.
4. Within 20 days of the date of this Order, Cynthiana shall file tariff sheets that reflect the rate approved herein.
5. If either party wishes to withdraw from the Settlement Agreement because of the modifications ordered herein, it shall notify the Commission in writing within 7 days of the date of this Order.

6. If either party withdraws from the Settlement Agreement, Ordering Paragraphs 1 through 4 of this Order shall be vacated upon the Commission's receipt of the party's notice of withdrawal and the parties shall appear before the Commission on May 4, 2000 at 9:00 a.m., Eastern Daylight Time, in Hearing Room 2 of the Commission's offices at 211 Sower Boulevard, Frankfort, Kentucky for the purpose of hearing evidence on Cynthiana's proposed rate revision.

Done at Frankfort, Kentucky, this 24th day of April, 2000.

By the Commission

ATTEST:


Executive Director

APPENDIX

AN APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE
COMMISSION IN CASE NO. 1999-300 DATED
APRIL 24, 2000

SETTLEMENT AGREEMENT

THIS SETTLEMENT AGREEMENT made and entered into this 16th day of March, 2000, by and between the City of Cynthiana ("Cynthiana") and the Harrison County Water Association ("HCWA");

WITNESSETH:

THAT, WHEREAS, Cynthiana and the HCWA are currently parties to a Water Purchase Contract dated October 21, 1987, under which Cynthiana is obligated to sell water to the HCWA at certain rates; and

WHEREAS, as a result of the Kentucky Supreme Court case in Simpson County Water District v. City of Franklin, Ky., 872 S.W.2d 460 (1994), the water rates charged by city municipalities under contracts with regulated water utilities were found to be subject to the jurisdiction and approval of the Kentucky Public Service Commission ("PSC") and Chapter 278 of the Kentucky Revised Statutes; and

WHEREAS, in June of 1999, Cynthiana filed with the PSC a proposed increase in its water rate to HCWA; and

WHEREAS, HCWA requested that the PSC suspend and investigate Cynthiana's proposed rate adjustment and intervened in the proceedings, docketed as PSC Case No. 99-300; and

WHEREAS, the parties hereto, having participated in the administrative rate proceeding in Case No. 99-300, being desirous of settling their water rate dispute without further administrative litigation;

NOW, THEREFORE, in complete and full settlement of the issues raised in Case No. 99-300, styled "In the Matter of: Proposed Adjustment of the Wholesale Water Service Rates of the City of Cynthiana, Kentucky," the parties stipulate and agree as follows:

(1) Cynthiana shall establish and charge HCWA for all water purchased by HCWA the rate of \$1.85 per 1,000 gallons.

(2) The effective date of the water rate of \$1.85 referred to in Paragraph 1 above shall be March 1, 2000.

(3) HCWA shall further pay to Cynthiana in a lump sum \$35,481.60, said amount being HCWA's proportionate share (45%) of the costs incurred by Cynthiana associated with the drought of 1999. This amount shall be paid within seven (7) days of the PSC's approval of this Settlement Agreement.

(4) This Settlement Agreement shall be submitted to the PSC for approval, which approval shall be sought on an expedited basis by both parties. In the event the PSC does not approve the Settlement Agreement, including the March 1st effective date for the implementation of the new wholesale rate of \$1.85 per 1,000 gallons, this Settlement Agreement shall be null and void and of no effect.

(5) Cynthiana shall not seek further recovery or rate relief for any expenses or costs incurred by Cynthiana in connection with Case No. 99-300, the rate proceeding to be concluded by this Settlement Agreement; nor shall HCWA seek recovery of their costs from Cynthiana.

(6) In the future, HCWA shall not raise, assert or rely on the rate provisions contained in the Water Purchase Contract; which contract provisions shall be deemed to have been superseded by the PSC's regulatory authority over rates charged by non-regulated utilities to regulated utilities.

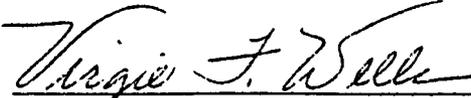
(7) Cynthiana shall and does hereby release HCWA from any claims under the Water Purchase Contract with reference to HCWA's water rates, the terms and agreements contained herein constituting full satisfaction of such claims.

(8) HCWA shall and does hereby release Cynthiana from any claims under the Water Purchase Contract with reference to HCWA's water rates, the terms and agreements contained herein constituting full satisfaction of such claims.

(9) HCWA agrees that, in the future, should an extraordinary condition (e.g., drought, floods, regulatory changes) cause an incremental and identifiable increase in the cost of water produced by Cynthiana for supply to Cynthiana retail customers, as well as to HCWA, HCWA shall reimburse Cynthiana for such costs within sixty (60) days after submission by Cynthiana, of an itemization of the costs incurred. The reimbursement shall be calculated by multiplying the amount of the submitted emergency costs times a fraction, the numerator of which is the wholesale water purchases by HCWA in the most recent 12 month period preceding the emergency, and the denominator of which shall be the total water production for the Cynthiana plant over the same period. Any disputes over the amount to be paid by HCWA, or the manner of such payment, shall be submitted to the PSC for resolution; provided that any payment ultimately made by HCWA shall include interest at eight percent (8%) per annum commencing after sixty (60) days following submission of the emergency costs to HCWA by Cynthiana.

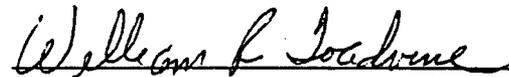
(10) This Settlement Agreement has been duly executed by the lawful representatives of the City of Cynthiana and the HCWA, after full disclosure of the terms hereof, after consultation with counsel, and after appropriate resolution and/or ordinance approving the Settlement Agreement by the City Commission of the City of Cynthiana and the Board of the HCWA respectively.

CITY OF CYNTHIANA



Virgie F. Wells, Mayor

HARRISON COUNTY WATER ASSOCIATION, INC.



William R. Toadvine, President

CY015:000CY:3569:FRANKFORT



Paul E. Patton, Governor
Ronald B. McCloud, Secretary
Public Protection and
Regulation Cabinet

Martin J. Huelsmann
Executive Director
Public Service Commission

COMMONWEALTH OF KENTUCKY
PUBLIC SERVICE COMMISSION
211 SOWER BOULEVARD
POST OFFICE BOX 615
FRANKFORT, KENTUCKY 40602-0615
www.psc.state.ky.us
(502) 564-3940
Fax (502) 564-3460

B. J. Helton
Chairman

Edward J. Holmes
Vice Chairman

Gary W. Gillis
Commissioner

April 24, 2000

Bruce F. Clark, Esq.
Mark R. Overstreet, Esq.
Stites & Harbison
P.O. Box 634
Frankfort, Kentucky 40602-0634

Hon. Virgie Florence Wells
City of Cynthiana
P.O. Box 67
Cynthiana, Kentucky 41031-0067

Re: Case No. 1999-300
City of Cynthiana

Dear Mayor Wells and Gentlemen:

Harrison County Water Association ("HCWA") has informed the Commission that the City of Cynthiana ("Cynthiana") is currently charging a wholesale water service rate of \$1.85 per 1,000 gallons. While HCWA and Cynthiana have agreed that this rate is the appropriate rate for wholesale water service, the Commission has not approved this rate. Until the Commission approves this rate, it may not be charged. Cynthiana should immediately cease assessing this rate and resume billing at the rates currently set forth in its filed rate schedule. Please be advised that any monies collected in excess of Cynthiana's currently approved wholesale rate schedule are subject to refund. See KRS 278.160.

Any questions regarding this letter should be directed to Gerald Wuetcher, Commission counsel, at (502) 564-3940, Extension 259.

Sincerely,

A handwritten signature in black ink, appearing to read "Martin J. Huelsmann".

Martin J. Huelsmann
Executive Director

cc: Dorothy Jo Mastin, Esq.



COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

RECEIVED
MAR 20 2000
PUBLIC SERVICE
COMMISSION

In the Matter of:

PROPOSED ADJUSTMENT OF THE)
WHOLESALE WATER SERVICE RATES OF) ADMINISTRATIVE
THE CITY OF CYNTHIANA, KENTUCKY) CASE NO. 99-300

* * * * *

MOTION TO APPROVE SETTLEMENT AGREEMENT

Comes the City of Cynthiana, by and through counsel, and with the consent of Harrison County Water Association, moves the Kentucky Public Service Commission to approve the Settlement Agreement attached hereto as resolution of issues presented in Case No. 99-300. Expedited approval of the Settlement Agreement is further requested.

Respectfully submitted,



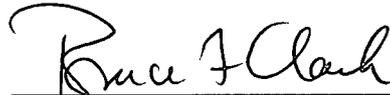
Bruce F. Clark
Mark R. Overstreet
Michele M. Whittington
STITES & HARBISON
421 West Main Street
P.O. Box 634
Frankfort, KY 40602-0634
Telephone: (502) 223-3477
COUNSEL FOR CITY OF CYNTHIANA

CERTIFICATE OF SERVICE

I hereby certify that a copy of this Motion was served by first class mail, postage prepaid, upon the following parties of record, this 20th day of March, 2000.

Dorothy Jo Mastin, Esq.
9 South Walnut Street
Cynthiana, KY 41031

William R. Toadvine, President
Harrison County Water Association, Inc.
P. O. Box 215
Cynthiana, KY 41031



Bruce F. Clark

CY015:000CY:3678:FRANKFORT

SETTLEMENT AGREEMENT

THIS SETTLEMENT AGREEMENT made and entered into this 16th day of March, 2000, by and between the City of Cynthiana ("Cynthiana") and the Harrison County Water Association ("HCWA");

W I T N E S S E T H:

THAT, WHEREAS, Cynthiana and the HCWA are currently parties to a Water Purchase Contract dated October 21, 1987, under which Cynthiana is obligated to sell water to the HCWA at certain rates; and

WHEREAS, as a result of the Kentucky Supreme Court case in Simpson County Water District v. City of Franklin, Ky., 872 S.W.2d 460 (1994), the water rates charged by city municipalities under contracts with regulated water utilities were found to be subject to the jurisdiction and approval of the Kentucky Public Service Commission ("PSC") and Chapter 278 of the Kentucky Revised Statutes; and

WHEREAS, in June of 1999, Cynthiana filed with the PSC a proposed increase in its water rate to HCWA; and

WHEREAS, HCWA requested that the PSC suspend and investigate Cynthiana's proposed rate adjustment and intervened in the proceedings, docketed as PSC Case No. 99-300; and

WHEREAS, the parties hereto, having participated in the administrative rate proceeding in Case No. 99-300, being desirous of settling their water rate dispute without further administrative litigation;

NOW, THEREFORE, in complete and full settlement of the issues raised in Case No. 99-300, styled "In the Matter of: Proposed Adjustment of the Wholesale Water Service Rates of the City of Cynthiana, Kentucky," the parties stipulate and agree as follows:

(1) Cynthiana shall establish and charge HCWA for all water purchased by HCWA the rate of \$1.85 per 1,000 gallons.

(2) The effective date of the water rate of \$1.85 referred to in Paragraph 1 above shall be March 1, 2000.

(3) HCWA shall further pay to Cynthiana in a lump sum \$35,481.60, said amount being HCWA's proportionate share (45%) of the costs incurred by Cynthiana associated with the drought of 1999. This amount shall be paid within seven (7) days of the PSC's approval of this Settlement Agreement.

(4) This Settlement Agreement shall be submitted to the PSC for approval, which approval shall be sought on an expedited basis by both parties. In the event the PSC does not approve the Settlement Agreement, including the March 1st effective date for the implementation of the new wholesale rate of \$1.85 per 1,000 gallons, this Settlement Agreement shall be null and void and of no effect.

(5) Cynthiana shall not seek further recovery or rate relief for any expenses or costs incurred by Cynthiana in connection with Case No. 99-300, the rate proceeding to be concluded by this Settlement Agreement; nor shall HCWA seek recovery of their costs from Cynthiana.

(6) In the future, HCWA shall not raise, assert or rely on the rate provisions contained in the Water Purchase Contract; which contract provisions shall be deemed to have been superseded by the PSC's regulatory authority over rates charged by non-regulated utilities to regulated utilities.

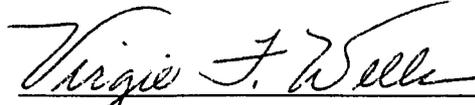
(7) Cynthiana shall and does hereby release HCWA from any claims under the Water Purchase Contract with reference to HCWA's water rates, the terms and agreements contained herein constituting full satisfaction of such claims.

(8) HCWA shall and does hereby release Cynthiana from any claims under the Water Purchase Contract with reference to HCWA's water rates, the terms and agreements contained herein constituting full satisfaction of such claims.

(9) HCWA agrees that, in the future, should an extraordinary condition (e.g., drought, floods, regulatory changes) cause an incremental and identifiable increase in the cost of water produced by Cynthiana for supply to Cynthiana retail customers, as well as to HCWA, HCWA shall reimburse Cynthiana for such costs within sixty (60) days after submission by Cynthiana, of an itemization of the costs incurred. The reimbursement shall be calculated by multiplying the amount of the submitted emergency costs times a fraction, the numerator of which is the wholesale water purchases by HCWA in the most recent 12 month period preceding the emergency, and the denominator of which shall be the total water production for the Cynthiana plant over the same period. Any disputes over the amount to be paid by HCWA, or the manner of such payment, shall be submitted to the PSC for resolution; provided that any payment ultimately made by HCWA shall include interest at eight percent (8%) per annum commencing after sixty (60) days following submission of the emergency costs to HCWA by Cynthiana.

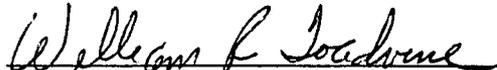
(10) This Settlement Agreement has been duly executed by the lawful representatives of the City of Cynthiana and the HCWA, after full disclosure of the terms hereof, after consultation with counsel, and after appropriate resolution and/or ordinance approving the Settlement Agreement by the City Commission of the City of Cynthiana and the Board of the HCWA respectively.

CITY OF CYNTHIANA



Virgie F. Wells, Mayor

HARRISON COUNTY WATER ASSOCIATION, INC.



William R. Toadvine, President

CY015:000CY:3569:FRANKFORT

CONFIDENTIAL

COMMONWEALTH OF KENTUCKY
PUBLIC SERVICE COMMISSION

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IN THE MATTER OF:

PROPOSED ADJUSTMENT OF THE
WHOLESALE WATER SERVICE RATES
OF THE CITY OF CYNTHIANA,
KENTUCKY

CASE NO. 99-300

FILED
MAR 15 2000
PUBLIC SERVICE
COMMISSION

TRANSCRIPT OF EVIDENCE

DATE OF HEARING: March 1, 2000

APPEARANCES

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HON. PAUL SHAPIRO, HEARING OFFICER

HON. GERALD WUETCHER, COUNSEL FOR COMMISSION STAFF

FOR CITY OF CYNTHIANA, KENTUCKY:

HON. BRUCE F. CLARK

STITES & HARBISON

421 WEST MAIN STREET

FRANKFORT, KENTUCKY 40601

I N D E X

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2

Discussion

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Notary Certificate

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HEARING OFFICER SHAPIRO:

This is a hearing before the Kentucky Public Service Commission in the matter of the proposed adjustment of the wholesale water service rates of the City of Cynthiana, Kentucky, Case No. 99-300. Harrison County Water Association, to whom the increase in rates would apply, has intervened in this proceeding, but both parties are represented by counsel. I have been advised prior to the hearing that the parties have reached a tentative agreement. I'll ask counsel representing Cynthiana if that's correct.

MR. CLARK:

Yes.

HEARING OFFICER SHAPIRO:

Would you like to make your appearance?

MR. CLARK:

Bruce Clark, Stites & Harbison, 421 West Main Street, Frankfort, Kentucky, for the applicant, City of Cynthiana. I have been in contact this morning with Dorothy Jo Mastin, counsel for the Harrison County Water Association. She had asked that I not represent her but speak for her and present to the Commission this morning a letter which sets forth the general terms of an agreement which has been signed by me, as counsel for Cynthiana, as well as by Mr. Toadvine, who

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is the President of the Harrison County Water Association.

HEARING OFFICER SHAPIRO:

Okay. And who is appearing on behalf of Commission staff?

MR. WUETCHER:

On behalf of Commission staff, Gerald Wuetcher.

HEARING OFFICER SHAPIRO:

Do you want to present that letter at this time?

MR. CLARK:

Yes, if I might. I don't know whether it needs to be filed of record in the case or not. What I have here, Mr. Shapiro, are two pieces of correspondence. One is my letter which was faxed this morning to Ms. Mastin which has my original signature on it and the returned fax which was received this morning from Ms. Mastin which had been signed by Mr. Toadvine. Because of the double fax associated with the version that has Mr. Toadvine's signature, the terms are relatively difficult to read. I think it can be read but I would just as soon tender a printed copied version so if anyone has any difficulty reading it. I would like to make that, I suppose, a part of the record.

HEARING OFFICER SHAPIRO:

Okay. Let's introduce it, then, as an Exhibit,

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Ms. Mastin and she concurs in that.

HEARING OFFICER SHAPIRO:

Okay. How much time do you need to get the agreement?

Twenty days?

MR. CLARK:

I would hope we could get it by the end of the week. Certainly it's been drafted on our end but whether we can get the parties to meet and hammer out words or not, but we would try to get it in forthwith.

HEARING OFFICER SHAPIRO:

Okay.

MR. CLARK:

I would ask the Commission staff to review the terms. The terms of the settlement agreement are not going to differ materially from the provisions which are set forth in the letter. It will be just a lot of lawyer talk about releases and whatever, but the nuts and bolts are set forth in this letter so we would ask that their review proceed, if that's permissible, and, as soon as we get the settlement agreement, we'll tender it to the Commission.

HEARING OFFICER SHAPIRO:

Does the staff have anything they wish to add?

MR. WUETCHER:

No, Your Honor, except we would move at this time that

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all the material that had previously been filed with the Commission, in anticipation of a hearing, including the verified testimony of all the witnesses and the responses to the information requests, be made a part of the record of this hearing today contingent upon the filing of a settlement agreement so that there's no doubt as to the fact that it is in the record and that it can be used by the Commission in evaluating the settlement agreement.

MR. CLARK:

We would join in that motion, Your Honor.

HEARING OFFICER SHAPIRO:

Okay. So you wish the information to be made as part of the evidence in this proceeding; is that correct?

MR. WUETCHER:

I believe it's already in the record of the case, but, to the extent that there's a question, we ask that it be made also a part of the record of this hearing today.

MR. CLARK:

No objection.

HEARING OFFICER SHAPIRO:

And evidence in the case?

MR. CLARK:

Yes.

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HEARING OFFICER SHAPIRO:

Okay. So ordered. Okay. The hearing, then, will be continued generally.

MR. CLARK:

Thank you.

HEARING OFFICER SHAPIRO:

The hearing is adjourned.

OFF THE RECORD

HEARING ADJOURNED

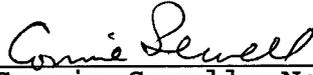
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STATE OF KENTUCKY
COUNTY OF FRANKLIN

I, Connie Sewell, the undersigned Notary Public, in and for the State of Kentucky at Large, do hereby certify the foregoing transcript is a complete and accurate transcript, to the best of my ability, of the hearing taken down by me in this matter, as styled on the first page of this transcript; that said hearing was first taken down by me in shorthand and mechanically recorded and later transcribed by me.

My commission will expire November 19, 2001.

Given under my hand at Frankfort, Kentucky, this the 14th day of March, 2000.



Connie Sewell, Notary Public
State of Kentucky at Large
1705 South Benson Road
Frankfort, Kentucky 40601
Phone: (502) 875-4272

STITES & HARBISON

ATTORNEYS

March 1, 2000

Dorothy Jo Mastin, Esq.
9 South Walnut Street
Cynthiana, Kentucky 41031

William R. Toadvine, President
Harrison County Water Association, Inc.
Route 2, Box 277
Cynthiana, KY 41031

RE: Proposed Adjustment of the Wholesale Water Rates of the City of
Cynthiana, Kentucky, PSC No. 99-300

Dear Ms. Mastin and Mr. Toadvine:

The purpose of this letter is to set forth the agreed terms and conditions for settlement of the above-referenced matter. The parties have agreed as follows:

1. Effective March 1, 2000, the rate for all water purchased by Harrison County Water Association ("HCWA") from the City of Cynthiana will be \$1.85 per 1,000 gallons. HCWA understands and agrees that this rate will apply to HCWA only and will not be tied to or otherwise affected by the rates charged by Cynthiana to its city retail customers.
2. HCWA will reimburse Cynthiana for HCWA's proportionate share (45% or \$35,481.60) of the costs incurred by Cynthiana in connection with last summer's drought. HCWA will pay this amount to Cynthiana within seven days of the PSC's approval of the settlement agreement.
3. HCWA will reimburse Cynthiana for its proportionate share of any and all future emergency costs incurred by Cynthiana under terms and conditions to be agreed upon by the parties.
4. The settlement agreement will be contingent upon approval by the PSC.

If this letter accurately sets forth the terms of our discussions, please have Mr. Toadvine acknowledge the settlement agreement by signing below where indicated and fax a copy of the letter to me as soon as possible. Upon receipt of the executed copy of the letter I will contact the PSC and let them know that we have reached a tentative agreement. We will then draft a formal settlement agreement and forward it to you for review and comment.

421 West Main Street
Post Office Box 634
Frankfort, KY 40602 0634
[502] 223-3477
[502] 223-4124 Fax
www.stites.com

Bruce F. Clark
[502] 223-3477 Ext. 214
bclark@stites.com



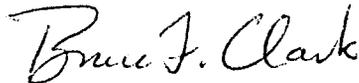
STITES & HARBISON

ATTORNEYS

Dorothy Jo Mastin, Esq.
William R. Toadvine, President
March 1, 2000
Page 2

Your assistance and cooperation in this matter are appreciated. Please do not hesitate to call me if you have any questions.

Very truly yours,



Bruce F. Clark

SEEN AND AGREED TO BY:

William R. Toadvine, President
Harrison County Water Association, Inc.

BFC:mmw

cc: Mayor Virgie Wells
John Lair, Esq.

CONFIDENTIAL

COMMONWEALTH OF KENTUCKY
PUBLIC SERVICE COMMISSION

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IN THE MATTER OF:

PROPOSED ADJUSTMENT OF THE
WHOLESALE WATER SERVICE RATES
OF THE CITY OF CYNTHIANA,
KENTUCKY

FILED
MAR 15 2000
PUBLIC SERVICE
COMMISSION

CASE NO. 99-300

TRANSCRIPT OF EVIDENCE

DATE OF HEARING: March 1, 2000

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APPEARANCES

HON. PAUL SHAPIRO, HEARING OFFICER

HON. GERALD WUETCHER, COUNSEL FOR COMMISSION STAFF

FOR CITY OF CYNTHIANA, KENTUCKY:

HON. BRUCE F. CLARK

STITES & HARBISON

421 WEST MAIN STREET

FRANKFORT, KENTUCKY 40601

I N D E X

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PAGE NO.

Appearances

2

Discussion

4-9

Notary Certificate

10

1 HEARING OFFICER SHAPIRO:

2 This is a hearing before the Kentucky Public Service
3 Commission in the matter of the proposed adjustment of
4 the wholesale water service rates of the City of
5 Cynthiana, Kentucky, Case No. 99-300. Harrison County
6 Water Association, to whom the increase in rates would
7 apply, has intervened in this proceeding, but both
8 parties are represented by counsel. I have been
9 advised prior to the hearing that the parties have
10 reached a tentative agreement. I'll ask counsel
11 representing Cynthiana if that's correct.

12 MR. CLARK:

13 Yes.

14 HEARING OFFICER SHAPIRO:

15 Would you like to make your appearance?

16 MR. CLARK:

17 Bruce Clark, Stites & Harbison, 421 West Main Street,
18 Frankfort, Kentucky, for the applicant, City of
19 Cynthiana. I have been in contact this morning with
20 Dorothy Jo Mastin, counsel for the Harrison County
21 Water Association. She had asked that I not represent
22 her but speak for her and present to the Commission
23 this morning a letter which sets forth the general
24 terms of an agreement which has been signed by me, as
25 counsel for Cynthiana, as well as by Mr. Toadvine, who

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is the President of the Harrison County Water Association.

HEARING OFFICER SHAPIRO:

Okay. And who is appearing on behalf of Commission staff?

MR. WUETCHER:

On behalf of Commission staff, Gerald Wuetcher.

HEARING OFFICER SHAPIRO:

Do you want to present that letter at this time?

MR. CLARK:

Yes, if I might. I don't know whether it needs to be filed of record in the case or not. What I have here, Mr. Shapiro, are two pieces of correspondence. One is my letter which was faxed this morning to Ms. Mastin which has my original signature on it and the returned fax which was received this morning from Ms. Mastin which had been signed by Mr. Toadvine. Because of the double fax associated with the version that has Mr. Toadvine's signature, the terms are relatively difficult to read. I think it can be read but I would just as soon tender a printed copied version so if anyone has any difficulty reading it. I would like to make that, I suppose, a part of the record.

HEARING OFFICER SHAPIRO:

Okay. Let's introduce it, then, as an Exhibit,

1 Cynthiana Exhibit No. 1.

2 CYNTHIANA EXHIBIT 1

3 MR. CLARK:

4 If I might, Mr. Shapiro, what we would ask the
5 Commission to do would be to continue the hearing until
6 such time as a signed settlement agreement could be
7 submitted to the Commission. We would ask at that time
8 for the Commission to review the terms of the
9 settlement agreement and, unless there's something that
10 the Commission were to find as to be illegal or
11 inappropriate, to approve the settlement agreement on
12 an expedited basis because one of the terms of the
13 settlement agreement is that we get the rates
14 implemented on March 1, today, and we would like to
15 make sure that happens. We also have to go through the
16 approval from the City Commission as well as the
17 Harrison County Water Association. So, as soon as we
18 get the agreement drafted and executed by the parties,
19 we will be tendering it and we do not believe a hearing
20 would be necessary on the settlement agreement. We
21 believe the testimony that has been filed to date, as
22 well as the Exhibits, would support a Commission review
23 of the settlement agreement and the terms and the
24 conditions of the agreement without further hearing.
25 So that is what our request is. I've explained that to

CONNIE SEWELL

COURT REPORTER

1705 SOUTH BENSON ROAD
FRANKFORT, KENTUCKY 40601

(502) 875-4272

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Ms. Mastin and she concurs in that.

HEARING OFFICER SHAPIRO:

Okay. How much time do you need to get the agreement?

Twenty days?

MR. CLARK:

I would hope we could get it by the end of the week. Certainly it's been drafted on our end but whether we can get the parties to meet and hammer out words or not, but we would try to get it in forthwith.

HEARING OFFICER SHAPIRO:

Okay.

MR. CLARK:

I would ask the Commission staff to review the terms. The terms of the settlement agreement are not going to differ materially from the provisions which are set forth in the letter. It will be just a lot of lawyer talk about releases and whatever, but the nuts and bolts are set forth in this letter so we would ask that their review proceed, if that's permissible, and, as soon as we get the settlement agreement, we'll tender it to the Commission.

HEARING OFFICER SHAPIRO:

Does the staff have anything they wish to add?

MR. WUETCHER:

No, Your Honor, except we would move at this time that

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all the material that had previously been filed with the Commission, in anticipation of a hearing, including the verified testimony of all the witnesses and the responses to the information requests, be made a part of the record of this hearing today contingent upon the filing of a settlement agreement so that there's no doubt as to the fact that it is in the record and that it can be used by the Commission in evaluating the settlement agreement.

MR. CLARK:

We would join in that motion, Your Honor.

HEARING OFFICER SHAPIRO:

Okay. So you wish the information to be made as part of the evidence in this proceeding; is that correct?

MR. WUETCHER:

I believe it's already in the record of the case, but, to the extent that there's a question, we ask that it be made also a part of the record of this hearing today.

MR. CLARK:

No objection.

HEARING OFFICER SHAPIRO:

And evidence in the case?

MR. CLARK:

Yes.

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HEARING OFFICER SHAPIRO:

Okay. So ordered. Okay. The hearing, then, will be continued generally.

MR. CLARK:

Thank you.

HEARING OFFICER SHAPIRO:

The hearing is adjourned.

OFF THE RECORD
HEARING ADJOURNED

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STATE OF KENTUCKY
COUNTY OF FRANKLIN

I, Connie Sewell, the undersigned Notary Public, in and for the State of Kentucky at Large, do hereby certify the foregoing transcript is a complete and accurate transcript, to the best of my ability, of the hearing taken down by me in this matter, as styled on the first page of this transcript; that said hearing was first taken down by me in shorthand and mechanically recorded and later transcribed by me.

My commission will expire November 19, 2001.

Given under my hand at Frankfort, Kentucky, this the 14th day of March, 2000.



Connie Sewell, Notary Public
State of Kentucky at Large
1705 South Benson Road
Frankfort, Kentucky 40601
Phone: (502) 875-4272

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

RECEIVED

FEB 29 2000

PUBLIC SERVICE
COMMISSION

In the Matter of:

PROPOSED ADJUSTMENT OF THE)
WHOLESALE WATER SERVICE RATES OF) ADMINISTRATIVE
THE CITY OF CYNTHIANA, KENTUCKY) CASE NO. 99-300

SUPPLEMENTAL RESPONSE OF CITY OF CYNTHIANA
TO COMMISSION ORDER DATED JANUARY 4, 2000

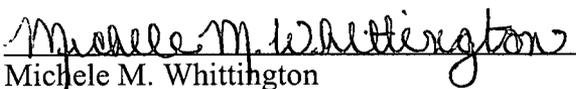
Bruce F. Clark
Mark R. Overstreet
Michele M. Whittington
STITES & HARBISON
421 West Main Street
P.O. Box 634
Frankfort, KY 40602-0634
Telephone: (502) 223-3477
COUNSEL FOR CITY OF CYNTHIANA

CERTIFICATE OF SERVICE

I hereby certify that a copy of the Supplemental Response was served by first class mail, postage prepaid, upon the following parties of record, this 29th day of February, 2000.

Dorothy Jo Mastin, Esq.
9 South Walnut Street
Cynthiana, KY 41031

William R. Toadvine, President
Harrison County Water Association, Inc.
P. O. Box 215
Cynthiana, KY 41031


Michele M. Whittington

CITY OF CYNTHIANA

REQUEST:

Refer to Cynthiana's Response to the Commission's Order of November 29, 1999, Item 2. In light of the Commission's decision in Case No. 96-616 (Case No. 96-616, The Application of Winchester Municipal Utilities for Approval of the Collection of System Development Charges (October 3, 1997)), does Cynthiana intend to enact an ordinance setting forth its proposed rate?

SUPPLEMENTAL RESPONSE:

Yes. See Attached.

Witness: Mayor Virgie Wells

ORDINANCE NO. 1312000

AN ORDINANCE ESTABLISHING A REVISED RATE SCHEDULE FOR CONTRACT WATER RATES FOR THE CITY OF CYNTHIANA AND AMENDING SECTION 20-18 OF THE CODE OF ORDINANCES OF THE CITY OF CYNTHIANA AS THE SAME RELATES TO CONTRACT WATER RATES.

WHEREAS, the establishment and revision of certain contract water rates is now subject to the jurisdiction of the Commonwealth of Kentucky Public Service Commission pursuant to the decision of the Kentucky Supreme Court in *Simpson County Water District vs. City of Franklin*, and

WHEREAS, on or about July 7, 1999, the City of Cynthiana submitted a proposed rate change to the Public Service Commission which would have had the effect of increasing the rate charged to the City's contract customers to a rate of not less than \$1.61 per 1,000 gallons with the rate to become effective on August 1, 1999 if approved by the Public Service Commission, and

WHEREAS, the Harrison County Water Association protested to the Public Service Commission challenging the rate increase and pursuant to a cost analysis and study performed by the City as a part of the rate case, it has been determined that the fair, just and reasonable rate should actually be \$2.20 per 1,000 gallons which should be the rate established for water to be purchased pursuant to any contract.

NOW, THEREFORE, BE IT ORDAINED BY THE CITY COMMISSION OF THE CITY OF CYNTHIANA, KENTUCKY AS FOLLOWS:

SECTION 1: The revised rate schedule for contract water rates for the City of Cynthiana shall be \$2.20 per 1,000 gallons.

SECTION 2: Pursuant to the jurisdiction vested in the Commonwealth of Kentucky Public Service Commission to establish certain contract water rates, this rate shall be applicable to the City's current contracts.

SECTION 3: The contract rate established in this Ordinance shall be effective as of August 1, 1999, provided however that the new contract rate shall not be collected until the rate has been approved by the Public Service

Commission. The rate shall not be applied retroactively. The City shall notify the contract customer when the rate has been approved.

SECTION 4: Section 20-18 of the Code of Ordinances of the City of Cynthiana shall be and hereby is amended to reflect the revised contract rate which will be charged to the Harrison County Water Association upon approval by the Public Service Commission. This Ordinance shall not effect the rate for water plant bulk sales as established in Subsection C of Section 20-18 of the Code of Ordinances.

SECTION 5: This Ordinance shall be effective upon approval, passage and publication as required by law.

First reading and approval: January 24, 2000

Second reading and passage: January 25, 2000

Virgie F. Wells
Virgie Wells, Mayor

ATTEST:

Charleen McIlvain
Charleen McIlvain, City Clerk

CITY OF CYNTHIANA

REQUEST:

- a. What fee was Cynthiana assessed for Mr. Hensley's "full cost analysis of water and sewer services"?
- b. Has Cynthiana reviewed or commissioned a review of its operations for the months since September 30, 1999 to determine if its operations for July 1999 were representative of its normal operations?

SUPPLEMENTAL RESPONSE:

- a. \$3,450.00
- b. Mr. Hensley has reviewed Cynthiana's operations for the period of July, 1999 through December, 1999 to determine whether the operations for July, 1999 were representative of the city's normal operations. The results of that study are attached. Based on Mr. Hensley's six-month study of Cynthiana's operations, it appears that the use of July 1999 as a representative month was reasonable.

Witness: Jerry Hensley

CITY OF CYNTHIANA, KY
 SUMMARY OF CHANGES TO PAYROLL ALLOCATIONS
 BASED UPON ACTUAL FOR JULY-DECEMBER 1999

	Public Affairs	Public Finance	Public Property	Public Works	Water	Sewer	
FY 99 Salaries & overtime per audit	31,815.76	63,295.49		169,723.89			264,835.14
Allocation based upon July 99 time sheets	25,713.17 0.097083	35,506.89 0.134060	5,368.46 0.020269	109,765.53 0.414431	62,175.87 0.234751	26,328.79 0.099407	264,858.71 1.00000
Allocation based upon July -Dec actual	17,868.43 0.097091	58,461.30 0.121698	5,653.44 0.013905	88,978.25 0.374167	68,205.64 0.302206	25,668.09 0.090933	264,835.15 1.00000

	Adjustments per July Only	Adjustments per Actual July-Dec 99	Difference
Due from Water & Sewer	88,481.09	93,873.72	(5,392.63)
Public Property Salaries	5,368.46	5,653.44	(284.98)
Public Affairs Salaries	(6,102.59)	(13,947.33)	7,844.74
Public Finance Salaries	(27,788.60)	(4,834.19)	(22,954.41)
Public Works Salaries	(59,958.36)	(80,745.64)	20,787.28
	-	-	-
Due from Water & Sewer	6,768.80	7,181.34	(412.54)
Public Property FICA	410.69	432.49	(21.80)
Public Affairs FICA	(466.85)	(1,066.97)	600.12
Public Finance FICA	(2,125.83)	(369.82)	(1,756.01)
Public Works FICA	(4,586.81)	(6,177.04)	1,590.23
	(0.00)	-	(0.00)
	-	-	-
Due from Water & Sewer	7,680.67	7,716.42	(35.75)
Public Property CERS	33.76	464.71	(430.95)
Public Affairs CERS	(501.63)	(1,146.47)	644.84
Public Finance CERS	(2,284.22)	(397.37)	(1,886.85)
Public Works CERS	(4,928.58)	(6,637.29)	1,708.71
	(0.00)	-	(0.00)
	-	-	-
WATER SALARIES	62,175.87	68,205.63	(6,029.76)
WATER FICA	4,756.45	5,217.73	(461.28)
WATER CERS	5,110.86	5,606.50	(495.65)
SEWER SALARIES	26,328.79	25,668.09	660.70
SEWER FICA	2,014.15	1,963.61	50.54
SEWER CERS	2,164.23	2,109.92	54.31
DUE TO GENERAL FUND	(102,550.35)	(108,771.48)	6,221.13
	(0.00)	(0.00)	0.00

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

RECEIVED

FEB 29 2000

In the Matter of:

PUBLIC SERVICE
COMMISSION

PROPOSED ADJUSTMENT OF THE)
WHOLESALE WATER SERVICE RATES OF) ADMINISTRATIVE
THE CITY OF CYNTHIANA, KENTUCKY) CASE NO. 99-300

SUPPLEMENTAL RESPONSE OF CITY OF CYNTHIANA
TO COMMISSION ORDER DATED OCTOBER 1, 1999

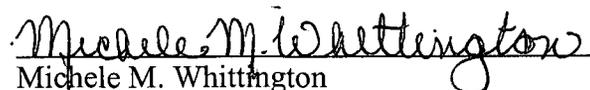
Bruce F. Clark
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Michele M. Whittington
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421 West Main Street
P.O. Box 634
Frankfort, KY 40602-0634
Telephone: (502) 223-3477
COUNSEL FOR CITY OF CYNTHIANA

CERTIFICATE OF SERVICE

I hereby certify that a copy of the Supplemental Response was served by first class mail, postage prepaid, upon the following parties of record, this 29th day of February, 2000.

Dorothy Jo Mastin, Esq.
9 South Walnut Street
Cynthiana, KY 41031

William R. Toadvine, President
Harrison County Water Association, Inc.
P. O. Box 215
Cynthiana, KY 41031


Michele M. Whittington

CITY OF CYNTHIANA

REQUEST:

- a. When did Cynthiana first prepare or commission a cost-of-service study to determine the appropriate rate for its water service to Harrison County?
- b.
 - (1) Who prepared this study?
 - (2) Provide the preparer's curriculum vitae?
 - (3) List all cases before the Commission in which the preparer has submitted a cost-of-service study.
 - (4) List all utilities (municipal or public) for which the preparer has prepared a cost-of-service study. For each utility, identify the type of utility service (water or sewer) for which the report was prepared.
- c. Provide a copy of this study.

SUPPLEMENTAL RESPONSE:

(c) Updated copies of Exhibits 2, 4, 5 and 7 to Mr. Miller's Cost of Service Study are attached.

Witness: Carlos F. Miller, P.E.

CYNTHIANA / HARRISON CO. W.A.
WHOLESALE WATER RATE
PSC CASE NO. 99-300
REVISIONS OF FEBRUARY 28, 2000

Revisions to the initial rate study include the following:

1. Exhibit 2. The initial pipeline data was provided by the city. Subsequently the city's engineer has measured the lengths of the various line sizes utilizing a system map provided by the city. The pipelines jointly used by HCWA have been color coded on a copy of the system map. The revised pipeline lengths and inch-mile determinations are contained in the revised Exhibit 2.
2. Exhibit 4. The allocation factors determined in this exhibit have been revised per the revised inch-mile data contained in the revised Exhibit 2.
3. Exhibit 5.
 - 3.1 Item 4 contains the estimate of rate case cost. The actual cost, to date, has exceeded the initial estimates. This item is revised to reflect an increase in the estimate of costs.
 - 3.2 HCWA questioned the depreciation lives for the new raw water pump as contained in Item 5. It was suggested that the 10 year life was appropriate for the pump but 20 years was more appropriate for the remainder of the items. The significance of this issue does not justify a debate. The suggested lives are used to revise Item 5.
4. Exhibit 7. This exhibit has been revised to reflect the changes described in the previously discussed exhibits.

(REVISED 2/28)

EXHIBIT 2

INCH-MILE DATA

SIZE (INCHES)	LENGTH (MILES)	TOTAL INCH-MILES	HCWA JOINTLY USED PIPELINES (MILES)	HCWA JOINTLY USED INCH-MILES
2	1.21	2.42	--	--
4	6.63	26.52	--	--
6	11.78	70.68	8.75	52.50
8	9.05	72.40	7.61	60.88
10	6.89	68.90	6.74	67.40
12	2.16	25.92	1.40	16.80
16	3.14	50.24	3.14	50.24
	<u>40.86</u>	<u>317.08</u>	<u>27.64</u>	<u>247.82</u>

HCWA Inch-Mile Ratio = $247.82/317.08 = 0.7816$

(REVISED 2/28)

EXHIBIT 4

ALLOCATION FACTORS

$$\text{Cynthiana Water Production Multiplier} = \frac{1}{1 - .1331} = 1.1535$$

Harrison County W.A. Allocation Factors

$$\text{HCWA Inch-Mile Ratio} = 0.7816 \text{ (Exhibit 2, Revised, 2/28)}$$

$$\text{HCWA Share of Line Loss} = .7816 \times .1176 = .0919$$

$$\text{Joint Share of Line Loss plus Plant Use} = .0919 + .0155 = .1074$$

$$\text{Water Production Multiplier} = \frac{1}{1 - .1074} = 1.1203$$

$$\text{Water Production Allocation Factor} = \frac{1.1203 \times 295,300.1^{(1)}}{1.1535 \times 622,694.4^{(1)}} = 0.4606$$

$$\text{Transmission Factor} = \frac{295,300.1 \times 0.7816}{622,694.4} = 0.3707$$

$$\text{Usage Factor}^{(2)} = \frac{295,300.1}{622,684.4} = 0.4742$$

(1) Water Sales, See Exhibit 3

(2) Ratio of Water Sales

(REVISED 2/28)

EXHIBIT 5

SPECIFIC EXPENSES AND TEST YEAR ADJUSTMENTS

1. Meters & Services

\$17.95 per hour x 41.5 hours = \$745⁽¹⁾

Annual Depreciation:

Meter Testing Equipment: \$10,000 ÷ 10 yrs. = 1000⁽¹⁾

Meter & Services: Per City's Depreciation Schedule 245

1245

2. Customer Accounts

\$96,122 (Salaries & Benefits)

16,486 (Supplies & Misc.)

\$112,608⁽¹⁾

Depreciation: \$25,685 ÷ 5 yrs. = \$5173⁽¹⁾

3. Cost of Drought

\$78,848⁽¹⁾

Amortize over three years: Annual Cost: \$26,283

4. Rate Case Cost

Stites & Harbison \$35,000

Jerry Hensley 7,227

Kenvirons, Inc. 8,500

Estimated Cost \$50,727

Amortize over six years: Annual Cost = \$8,454

5. Installation of Back-up Raw Water Pump

Cost: \$143,185⁽²⁾

Annual Depreciation:

(\$42,495 ÷ 10years) + (\$100,690 ÷ 20years) = \$9,284.00

⁽¹⁾ Costs provided by City.

⁽²⁾ Cost based on Engineer's estimate.

(REVISED 2/28)

EXHIBIT 7
ALLOCATION OF PRODUCTION AND TRANSMISSION COSTS
AND
DETERMINATION OF WHOLESALE RATE

I. <u>Test Period Costs</u>	<u>TOTAL COST</u>	<u>ALLOCATION FACTOR</u>	<u>COST ALLOCATED TO HCWA</u>
1.1 <u>Operating & Maintenance</u>			
Water Production	\$327,402	.4606 ⁽⁵⁾	150,801
Transmission & Distribution	100,116	.3707 ⁽⁵⁾	37,113
1.2 <u>Debt Service</u>			
Water Production	439,177	.4606	202,285
Transmission & Distribution	69,730	.3707	25,849
1.3 <u>Debt Service Coverage</u>			
Water Production	109,794	.4606	50,571
Transmission & Distribution	17,433	.3707	6,462
1.4 <u>Depreciation</u>			
Water Production	201,831	.4606	92,963
Transmission & Distribution	77,144	.3707	28,597
TOTAL TEST PERIOD COSTS	\$1,342,627		\$594,641
II. <u>Test Period Adjustments</u>			
2.1 <u>Cost of 1998 Drought</u>			
Water Production	\$26,283 ⁽¹⁾	.4606	12,106
2.2 <u>Rate Case Expense</u>	\$8,454 ⁽²⁾	1.0 ⁽²⁾	8,454
2.3 <u>Raw Water Pump Depreciation</u>	\$9,284 ⁽³⁾	.4606	4,276
Total Adjustments	\$44,021		\$24,836
Total Cost	\$1,386,648		\$619,477

Wholesale Rate = \$619,477 ÷ 295,300.1 = 2.10 per 1000 Gallons

⁽¹⁾ Exhibit 5, Item 3

⁽²⁾ Exhibit 5, Item 4. Allocation factor equals 1.0 because rate case is specifically for the purpose of determining HCWA rate.

⁽³⁾ Exhibit 5, Item 5

⁽⁴⁾ Exhibit 5, Item 6. Allocation factor is usage factor calculated in Exhibit 4.

⁽⁵⁾ Water Production Factor, See Exhibit 4

⁽⁶⁾ Transmission Factor, See Exhibit 4

COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

RECEIVED

FEB 25 2000

PUBLIC SERVICE
COMMISSION

In the Matter of:

PROPOSED ADJUSTMENT OF THE)	
WHOLESALE WATER SERVICE RATES OF)	ADMINISTRATIVE
THE CITY OF CYNTHIANA, KENTUCKY)	CASE NO. 99-300

RESPONSE TO REQUEST FOR INFORMATION TO
CITY OF CYNTHIANA

DOROTHY JO MASTIN
9 South Walnut Street
Cynthiana, Kentucky 41031
Telephone: (606) 235-9000

COUNSEL FOR HARRISON COUNTY WATER
ASSOCIATION, INC.

CERTIFICATE OF SERVICE

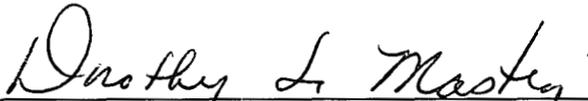
I hereby certify that a copy of this Response to Request for Information to City of Cynthiana, was served by first class mail, postage prepaid, upon the following parties of record, this the 25th day of February, 2000:

Hon. Gerald Wuetcher
General Counsel
Public Service Commission
311 Sower Avenue
P. O. Box 615
Frankfort, KY 40602

William R. Toadvine, President
Harrison County Water
Association, Inc.
Route 2, Box 277
Cynthiana, KY 41031

Bruce F. Clark
Michele M. Whittington
Stites & Harbison
421 West Main Street
P. O. Box 634
Frankfort, KY 40602-0634

Virgie Florence Wells
Mayor
City of Cynthiana, KY
P. O. Box 67
Cynthiana, KY 41031



Counsel for Harrison County Water
Association, Inc.

COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

PROPOSED ADJUSTMENT OF THE	}	
WHOLESALE WATER SERVICE RATES OF	}	ADMINISTRATIVE
THE CITY OF CYNTHIANA, KENTUCKY	}	CASE NO. 99-300

Comes now Harrison County Water Association, Inc., and in response to the request for information from the City of Cynthiana received February 14, 2000, provides the following answers to their request:

1. Please provide all documents, notes, memoranda or other written evidence relating to any meeting between the Harrison County Water Association ("HCWA") and the City of Cynthiana in which the issue of the rates charged the HCWA was discussed, including without limitation, the meetings described in Mr. Toadvine's Response to Question 11 of his Prefiled Testimony and Mr. Harover's Response to Question 14 of his Prefiled Testimony.

ANSWER:

Mr. Toadvine: I do not have any documents, notes, memoranda or other written evidence relating to any meeting between the Harrison County Water Association (HCWA) and the City of Cynthiana in which the issue of the rates charged the HCWA was discussed until the

May 28, 1999, meeting with Mayor Wells. The original of Mayor Wells's letter to HCWA following that meeting is attached as Exhibit 1. This letter was also filed as part of Mayor Virgie Wells's prefixed testimony and labeled as Cynthiana's Exhibit 2. Pie charts from that meeting as provided by the City to HCWA are filed as Exhibit 11.

Mr. Harover:

1) I attended a meeting in November of 1998, sometime before Thanksgiving. The notes from that meeting are attached. See Exhibit 2.

2) I attended a meeting on December 8, 1998, with Mayor Brown, Sturdivant, Hicks, Lewis and Danny Northcutt. A copy of the notes from that meeting are attached. See Exhibit 3.

2. Please refer to the Prefiled Testimony of Mr. Harover. Please list the name, docket number and the party retaining his services for:

(a) Each case before the Public Service Commission of Kentucky in which he testified;

ANSWER: None.

(b) Each case before the Public Service Commission of Kentucky in which he participated professionally and that is not listed in response to subpart (a).

ANSWER:

NAME	CASE NO.	CLIENT
Phase 4 Water Project	1991-216	Estill County Water District #1
Phase 4 Water Project	1991-380	Estill County Water District #1
Herrington Woods Water	1991-326	Lake Village Water Association Main Replacement Project
Phase 6 Water Project	1992-189	Harrison County Water Assoc.
Sukey Ridge/Tremont	1993-236	Black Mountain Water District Water Project
Phase 7 Water Project	1993-251	Harrison County Water Assoc.
Contract 5 Water Project	1994-090	Lake Village Water Association
Ison Road Storage Tank	1994-112	Lake Village Water Association
Phase 8 Water Project	1995-342	Harrison County Water Assoc.
Phase 5 Water Project	1996-319	Estill County Water District #1
Proposed Adjustment of Wholesale Water Service Rates of the City of Danville	1997-453	Lake Village Water Association
Contract 7 Water Project	1998-402	Lake Village Water Association
Phase 6 Water Project	1999-404	Estill County Water District #1

3. Please refer to Mr. Harover's response to Question 11 of his Prefiled Testimony.

(a) Please provide a detailed description of what Mr. Harover "read in the newspaper" and "rumors" he heard concerning "the City's need for a rate increase".

ANSWER: I read a newspaper article published on August 14, 1997, wherein the City of Cynthiana discussed doing away with the volume discount for heavy-use water customers and referring to HCWA as using 47 percent of the water. The article further stated that three or four industries would also be affected.

I read a newspaper article published January 27, 2000, wherein it was stated the City of Cynthiana would be revising its request of the PSC for a water rate increase AFTER (emphasis added) a study determined that the originally proposed increase was not enough.

I attended two(2) meetings as outlined in Question 1 that were set up for other purposes in which the City of Cynthiana mentioned their need for a rate increase at the close of the meeting.

(b) Please provide any documents, notes, memoranda or newspaper clippings relating to the matters described in Mr. Harover's response to Question 11 of his Prefiled Testimony.

ANSWER: See answer to Question 1, Exhibits 1, 2 and 3. Also, see Exhibits 4 and 5.

4. Please provide any cost of service or like study, including all drafts, performed on behalf of HCWA with respect to the City of Cynthiana's cost of providing water to HCWA.

ANSWER: I have not done a study on the cost of service for the City of Cynthiana to provide water to HCWA because I have never been asked or requested to do such a study. It is my understanding that such a study should be done in accordance with PSC approved methods. PSC recommends utilizing the Commodity Demand Method for small utilities which is explained in AWWA Manual M1. This

publication places high value on exacting record keeping. There is some question as to the reliability and accuracy of the City of Cynthiana's records. Until HCWA intervened, the City had not presented necessary information from which to perform a cost of service study.

5. Please refer to Question 19 in Mr. Harover's Prefiled Testimony.

(a) Please explain how the costs for "emergency/special occurrences could be handled outside the base rate structure," including the legal basis for doing so.

ANSWER:

Mr. Harover: See Item 1a, Sheet 6 of 19, Prefiled Testimony of Virgie Wells, 10/1/99. If it is mutually agreeable, it is my understanding, the entities involved can legally handle the costs for "emergency/special occurrences" outside the base rate structure. In fact, HCWA offered to handle their proportionate share of emergency cost outside the base rate structure in a proposal to the City dated January 20, 2000. See Exhibit 6.

(b) Please explain why a surcharge "would [not] be the way to handle" such costs.

ANSWER: HCWA does not disagree with a surcharge, but feel if a surcharge is implemented, each party should contribute their proportionate share at the time it is incurred.

(c) Please provide a detailed explanation of Mr. Harover's belief as to how the costs should be recovered, including the legal basis for doing so.

ANSWER: In our offer to settle this matter with the City of Cynthiana, HCWA offered to pay our proportionate share of any future disaster with supporting documentation. (See attachment as Exhibit 6.)

6. Please refer to Mr. Harover's response to Question 20 of his Prefiled Testimony.

(a) Is it Mr. Harover's contention that the back up water system was not used and useful at all times relevant to this proceeding?

ANSWER: No, in Mayor Wells's testimony (see answer to Question 9(a), Item 1a, Sheet 2 of 19), the Mayor said it had not been used. Mr. Harover did not say it was not used.

(b) Please provide a full explanation for Mr. Harover's response to subpart (a) of this Item.

ANSWER: See answer to 6(a).

(c) Given the fact that the costs for the back-up water supply were not included in the original rate structure, is it Mr. Harover's position that HCWA should now be assessed carrying costs for the prior twelve years?

ANSWER: The cost of the back-up water supply was included in the original rate structure in 1987. Proof of that fact was established by a letter dated October 26, 1987, from Hon. David Melcher, then counsel for HCWA, to Farmers Home Administration indicating that the cost of the raw water line was included when the rates charged the Harrison County Water Association were revised. See Exhibit 7.

(d) Provide a detailed explanation for Mr. Harover's response to subpart (c) of this Item.

ANSWER: See 6(c) above.

7. Please refer to Mr. Harover's response to Question 21 of his Prefiled Testimony.

(a) Please quantify the effect, if any, on Mr. Miller's calculation of the City of Cynthiana's cost of service to provide water to HCWA of there being eight master meters at connection points to HCWA, instead of the seven master meters used by Mr. Miller.

ANSWER: This answer was given to correct Mr. Miller's figure as to the number of master meters and to introduce additional information exhibiting the lack of distribution uniformity among those master meters. The point being, as the Exhibit 3a indicates (see Amended Exhibit List of Intervenor Testimony), water is not uniformly distributed to HCWA via Cynthiana's system.

(b) Please provide all workpapers, assumptions and calculations supporting the Response to subpart (a) to this Item.

ANSWER: See mastermeter reading, Exhibit 8, attached which plainly shows that two locations Millersburg (No. 5) and White Oak (No. 6) and Old Lair (No. 7) provide less than 2% of water to the HCWA system. Republican (No. 8) Stokely Lane (No. 3) and Webber (No.2) provide 75% of the water used by the HCWA system.

8. Please refer to Mr. Harover's response to Question 24 of his Prefiled Testimony.

(a) What rate does Mr. Harover contend would be a fair, just and reasonable rate for water provided by the City of Cynthiana to HCWA?

ANSWER: No more or no less than the rate charged any other city customers.

(b) Please provide all workpapers, assumptions, calculations and supporting documentation for the Response to subpart (a) of this Item.

ANSWER: Since I have been provided insufficient information to arrive at a proposed rate for all customers, I cannot answer this question. The City's study did not address all classes of customers.

9. Please refer to Mr. Harover's Response to Question 27 in his Prefiled Testimony.

(a) Please provide a detailed analysis and explanation of the basis for his statement "[t]here is minimal benefit to HCWA from" [the 16" waterline from the filtration pump to the Bundy Tower.]

ANSWER: I, Tony Harover, am unable to properly respond due to the City's failure to provide design reports/hydraulic analysis for that project which was previously requested (See Question #1B & C dated 1/4/2000). The 16" main follows a nearly direct route from the water transmission pump to the Bundy storage tank located on the Bundy manufacturing site. This main crosses HCWA's main feed from Cynthiana via the Stokely Lane mastermeter without an interconnection. This lack of connection combined with

deficiencies in Cynthiana's system in this area causes hydraulic problems for HCWA. Fireflow tests taken in this area reflect these hydraulic deficiencies. See Exhibit 2 from Intervenor Testimony. Fireflow tests on mains tied directly to the 16" main have significantly higher flows.

(b) Please provide all workpapers, assumptions and calculations or other documentation supporting the Response to subpart (a) of this Item.

ANSWER: See Answer to 9(a).

(c) Please quantify the effect on the rate calculated by Mr. Miller of Mr. Harover's conclusions regarding the 16" waterline from the filtration pump to the Bundy Tower.

ANSWER: See Answer to 9(a).

(d) Please provide all workpapers, assumptions and calculations or other documentation supporting the Response to subpart (d) of this Item.

ANSWER: See Answer to 9(a).

10. Please refer to Mr. Harover's Response to Question 28 in his Prefiled Testimony?

(a) Provide a detailed explanation of the "experience" upon which Mr. Harover bases his conclusions?

ANSWER: See Answer to Question 8 of Tony Harover in his prefiled Intervenor Testimony - Exhibit 1.

(b) Is Mr. Harover aware that Mr. Hensley conducted a three-month study (July, August, and September) of Cynthiana's operations before choosing July as the representative month?

ANSWER: Yes.

(c) If the answer to (b) is "yes", is it Mr. Harover's contention that Mr. Hensley's three month study would "skew" the allocations in the same manner as would a study of July only? Provide a detailed explanation for this conclusion.

ANSWER: These are not representative months, but months in which the peak water use occurs. When annualizing twelve months water use these months are not representative.

(d) If the answer to (b) is "no", does the use of the three-month study have any effect on Mr. Harover's conclusion that Mr. Hensley's study was "skewed?" Provide a detailed factual explanation for this conclusion.

ANSWER: See answer to 10(a).

11. Please refer to Mr. Harover's Response to Question 29 in his Prefiled Testimony.

(a) What does Mr. Harover contend would be the proper allocation of audit and bond fee expenses?

ANSWER: The audit fees of \$2,000.00 should be split equally between the Water and Sewer Departments. The bond fees should be allocated between the Water and Sewer Departments similar to the proportioned debt service. Refer to Exhibit 6 of Carlos Miller Testimony, Sheet 2 of 3, 12/13/99, Cynthiana Response.

(b) Please provide a detailed explanation of how the allocation provided in Response to subpart (a) of this Item was calculated, along with all workpapers, assumptions and calculations.

ANSWER: See Exhibit 9 - Summary of Test Period Results attached which is a duplication of the above referenced Exhibit 6 of Carlos Miller Testimony, Sheet 2 of 3, 12/13/99, Cynthiana Response.

(c) What effect would using the allocation provided in Response to subpart (a) of this Item have on the rate calculated by Mr. Miller?

ANSWER: As per above referenced Exhibit 9 and Exhibit 10 - Allocation of Production and Transmission Costs attached which is a duplication of the above referenced Exhibit 7 of Carlos Miller Testimony, Sheet 3 of 3, 12/13/99, Cynthiana Response, the effect is \$0.01 per 1,000 gallons. See Exhibit 11 which is a duplicate of Cost Analysis provided by Jerry Hensley in original testimony.

12. Please refer to Mr. Harover's Response to Question 31 of his Prefixed Testimony.

(a) Please provide a detailed explanation of the basis for Mr. Harover's conclusion that "[i]f fair and proper negotiations had taken place, outside counsel most likely would not have been necessary."

ANSWER:

1) I, Tony Harover, attended a meeting entitled "Kentucky Public Service Seminar for Water District Personnel" on December 14, 1999. A copy of the agenda for that meeting is attached as Exhibit 12. In that meeting, an attorney for the Public Service Commission emphasized that a cost-of-service study followed by legitimate negotiations between all parties involved must occur before the filing of a rate increase.

2) Harrison County was never provided any basis for a rate increase that would have allowed the Board of Directors to entertain a rate increase. Further, Mayor Wells told HCWA by letter dated June 2, 1999, that she would attend the next Board Meeting of HCWA (scheduled for June 17, 1999) after she had compiled the necessary information (letter attached as Exhibit 1). This never happened. A rate increase case was filed on or about June 2, 1999.

13. Does HCWA agree the City of Cynthiana is entitled to collect from HCWA a fair, just and reasonable rate for wholesale water provided by the City to HCWA without regard to the terms of the contract between HCWA and the City? If the Response to this Item is anything but an unequivocal "yes", please provide a detailed explanation for this Response.

ANSWER: HCWA agrees that the City of Cynthiana is entitled to fair, just and reasonable rates under the terms of our contract as long as all other customers are treated equally.

14. Does HCWA agree the City of Cynthiana is entitled to collect from HCWA a fair, just and reasonable rate for wholesale water provided by the City to HCWA without regard to the city rates to city customers which are not subject to the jurisdiction of the Public Service Commission of Kentucky? If the Response to this Item is anything but an unequivocal "yes", please provide a detailed explanation for the Response.

ANSWER: See Response to Question 13.

15. Please refer to Mr. Toadvine's Response to Question 9 of his Prefixed Testimony.

(a) For the years 1994-1999 please provide HCWA's total customers as of December 31st of each year.

ANSWER:

Date	Meters/Customers
1994	3,009
1995	3,102
1996	3,705
1997	3,910
1998	4,082
1999	4,250

(b) For the years 1994-1999 please provide the total water sales (in gallons) by HCWA for each year?

ANSWER:

Date	Yearly Water Purchased
1994	212,391,300
1995	231,959,048
1996	253,145,760
1997	276,760,090
1998	286,040,990
1999	310,532,880

16. Please refer to Mr. Toadvine's Response to Question 11 of his Prefixed Testimony.

(a) Please provide copies of all minutes of the HCWA from the past three years referring to or discussing any issues relating to the water service provided to HCWA by the City of Cynthiana.

ANSWER: See attachment as Exhibit 13.

(b) Is Mr. Toadvine or any other member of the HCWA aware of any discussions that occurred prior to January of 1999 between any

member of the HCWA and the City of Cynthiana regarding Cynthiana's need for a rate increase?

ANSWER: Yes.

(c) If the answer to (b) is "yes", please provide a brief description of those meetings, including the date of the meeting, the participants, and a summary of the points discussed at each meeting.

ANSWER:

Mr. Toadvine: I do recall meeting with then Mayor Jim Brown, Joe Lewis, John Lair, Danny Northcutt, Tony Harover, Dorothy Jo Mastin, and perhaps others at the Farmers National Branch Bank on or about November 5, 1998, to discuss a problem HCWA was having with the water pressure in the Stokely Lane/Harrison Square mastermeter area. Near the close of this meeting Mayor Brown brought up Cynthiana's desire to drop the highest rate category from the rate schedule and made a short statement of Cynthiana's need for a rate increase. When asked to provide some documentation of this need, the Mayor provided some pie charts that could hardly be construed as a cost/study analysis of a need for a rate increase. When asked for more information none was provided. A copy of the pie charts are attached as Exhibit 14.

17. Please refer to Mr. Toadvine's Response to Question 16 in his Prefixed Testimony.

(a) Please explain in detail the basis for the statement that the proposed rate adjustment will result in the HCWA subsidizing city customers.

ANSWER: Under the context of the present contract, if HCWA is placed in a separate category we will be paying a great deal more. HCWA contends it should pay the same for its water as all other types and classes of customers of the City of Cynthiana. Any rate which results in HCWA paying more than any other customer for the same quantity of water is not fair, just and reasonable rates under the terms of our contract.

(b) Please provide all work papers, assumptions and calculations that support the statement, including any quantifications of the amount of the claimed subsidy?

ANSWER: See attached Exhibit 15 - City of Cynthiana Rate Comparison. At the rate (\$2.20 per 1,000 gallons) proposed by Cynthiana, any customer with monthly water usage exceeding 27,712 gallons would purchase the excess gallons at a lower rate than HCWA. Likewise, at \$1.90 per 1,000 gallons, any customer with monthly water usage exceeding \$56,379.00 gallons would purchase the

excess gallons at a lower rate than HCWA. Even at \$1.60 per 1,000 gallons, any customer with monthly water usage exceeding 564,697 gallons would purchase the excess gallons at a lower rate than HCWA. As indicated by Exhibit 16 - Effects of Water Rate Increase (Dropping Last Tier) - (Based on May 99 Billing) provided by the City of Cynthiana, several customers fall into even the \$1.60 per 1,000 gallons category should the City justify this rate. An unlimited number of flat rates could be analyzed in the same way as those listed above. For clarity and to avoid repetition, this submittal was limited with the point clearly made.

18. Please refer to the exhibits to HCWA's "Supplement Amending Intervenor Testimony of Tony Harover and Accompanying Exhibits Filed January 28, 2000" (hereinafter referred to as "Supplement".)

(a) What is the purpose of the exhibits?

ANSWER:

Exhibit 3b - Inch mile data disagreeing with the inch mile data which is Exhibit 2 of Item 23, Sheet 8 of 15, filed by City.
Exhibit 3c - Pipe size-back up documentation to 3b and also tied to Exhibit 3 inch-mile data and how they arrived at that figure.

Exhibit 3d - Taking the City's exhibit four from Item 23, Sheet 10 of 15, recalculation of allocation factors based on inch mile data.

Exhibit 4 - Recalculation of City's Exhibit 5, Item 23, Sheet 11 of 15, removing legal costs and adjusted depreciation on raw water project.

Exhibit 4a - City's Exhibit 7 of Item 23, Sheet 13 of 15

Exhibit 4b - City's Exhibit 6 of Item 23, Sheet 12 of 15.

(b) Is HCWA sponsoring these as accurate calculations of the matters contained in the exhibits? If not, please explain why not, and what HCWA contends would be accurate.

ANSWER: They are accurate to the best information as provided by the City of Cynthiana to HCWA subject to revision of unanswered questions.

19. Please refer to Exhibit 3a to HCWA's Supplement.

(a) Please explain the basis for Mr. Harover's contention that HCWA's proportional use of the mastermeters should be measured by the ratio of HCWA's use at that meter to HCWA's total water use, rather than by the ratio of HCWA's use at that meter to the total water use (by both HCWA and Cynthiana) at that particular meter.

ANSWER: In HCWA's Exhibit 3a, those proportions did not come into play except to show it was not a uniform distribution system.

(b) Please provide all workpapers, calculations and supporting documentation for Mr. Harover's conclusion.

ANSWER: There are no work papers, calculations and supporting documentation

20. Please refer to Exhibit 3b to HCWA's Supplement.

(a) Please provide a detailed explanation of Mr. Harover's statement that "[s]ince HCWA is only supplied directly by 10" in one location and 8" or 6" in all other locations, the benefits from mains 10" has been reduced by a factor based on carrying capacity in relation to the 10". There factors are 0.63 and 0.29 for 12" and 16" respectively."

ANSWER: Refer to Item No. 15 of Carlos Miller Testimony, Sheet 2 of 2, 11/15/99, Cynthiana Response - Cynthiana Water System Map. None of the 12" & 16" mains are directly connected to feeds to HCWA and, as stated previously, result in less than optimal flow and/or pressure to HCWA mastermeters. Larger mains tucked in the middle of the system surrounded by smaller sized mains, supplying schools and/or industrial customers do not benefit HCWA in total as was presented in Exhibit 2 of Item No. 23 of Carlos Miller Testimony, Sheet 8 of 15, 11/15/99, Cynthiana Response - Inch-Mile

Data. These larger mains were reduced by carrying capacity ratios per Clow Pipe Economy Handbook, Volume 91, published by McWane, Inc. Refer to Exhibit 17 - Equation of Pipe, page 211, attached. The inverse of the carrying capacity for 10" vs. 12" (1.6) is 0.63 while for 10" vs. 16" (3.5) is 0.29. This is deemed conservative since further reductions to 8" & 6" could have been considered which would have proportionately reduced some of the 8" & 10" mains within Cynthiana's system. Furthermore, from fireflow information obtained from the City of Cynthiana dated March 1998 indicate over 30% of the hydrants tested flow less than 500 gpm at 20 psi residual. Over 55% of the hydrants tested flow less than 1000 gpm at 20 psi residual. See Exhibit 18 - Cynthiana Hydrant Flush Record (6 sheets), Exhibit 19 - Cynthiana Flushing Record (7 sheets) & Exhibit 20 - Cynthiana Hydrant Map (1 sheet).

(b) Please provide all workpapers, calculations and supporting documentation for Mr. Harover's Response to subpart (a) of this Item.

ANSWER: See answer to 20(a) above.

21. Please refer to Exhibit 4 of HCWA's Supplement. Explain the line item for depreciation under Item 2, "Customer Accounts."

ANSWER: Basically, the estimated costs for pumps and motors were depreciated over ten (10) years. All remaining costs were

depreciated over twenty (20) years, the useful life of the remaining equipment.

22. Please refer to Exhibit 4a of HCWA's Supplement.

(a) There is an Excel Spreadsheet note above the allocation factor for Rate Case Expense. Please provide a detailed explanation for the statement in the note that "it [HCWA] should participate in these costs similar to other cost allocations."

ANSWER: The City attributed all rate expense costs to HCWA. Cost of service studies should be proportionately distributed to all types and classes of customers.

(b) There is a calculation of a "wholesale rate" approximately 3/4 of the way down the sheet. Does HCWA contend that the wholesale rate for water sold by the City of Cynthiana to HCWA should be \$1.89 per 1000 gallons? If not, please explain in detail, why not, and state what the calculation represents?

ANSWER: Those are working calculations. Fire protection costs have not been adequately addressed. The 16 inch water main to the Bundy Tower and High School standpipe data requests have not been answered by the City.

AFFIDAVIT

The Affiant, Tony Harover, being duly sworn, states that the answers to questions attached hereto and made a part hereof constitutes part of the testimony of this Affiant in Case No. 99-300, In the Matter of: An Adjustment of the Wholesale Water Service Rates of the City of Cynthiana, Kentucky, and that if asked the questions propounded therein, this Affiant would make the answers set forth in the attached.

Affiant further states that he will be present and available for cross-examination and for such additional direct examination as may be appropriate at the hearing in Case No. 99-300 scheduled by the Commission, at which time Affiant will further reaffirm the attached prepared testimony as his direct testimony in such case.

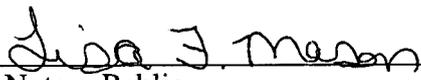


Tony Harover

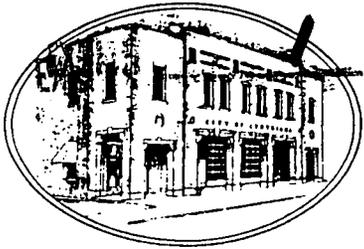
COMMONWEALTH OF KENTUCKY)
SCT.)
COUNTY OF HARRISON)

Subscribed and sworn to before me by Tony Harover, this the 24
day of February, 2000.

My commission expires:
July 10, 2003



Notary Public



CITY OF CYNTHIANA

P.O. BOX 67
CYNTHIANA, KENTUCKY 41031
(606) 234-7150

June 2, 1999

Mr. William R. Toadvine
President
Harrison County Water Association
P.O. Box 215
Cynthiana, Kentucky 41031

Dear Mr. Toadvine:

Thank you for the time we shared last Friday, May 28, 1999, discussing water problems. I appreciate your understanding of the change in the rate schedule for the Harrison County Water Association. The City finds that we can no longer sell water at \$1.27 per 1000 gallons to the large users because we are incurring a loss. I was pleased that you understood that the City has no choice but a rate increase. The City is forced to drop the 4th tier in our water rates as a result of this loss.

Regarding the questions we discussed, I am compiling information and the answers will be forthcoming – hopefully, by the time of your regular meeting.

Today, I am filing these rate changes with the Public Service Commission.

Yours truly,

A handwritten signature in cursive script that reads "Virgie Florence Wells". The ink is dark and the handwriting is fluid.

Virgie Florence Wells
Mayor
City of Cynthiana, Kentucky

VFW/kb

EXHIBIT 1

HCWA / Cynthia Mts

- 1) Flow & Supply concerns (Harrison Square / Stedley Lane Master Meter)
- 2) White Oak / KY 36 (Wobblers) area - high areas HCWA interested in pulling more water from this area but not hurting Cynthia
- 3) Industrial Park - Quest looking @ w & S 180-210 acres
- 4) Other plans

Rates & Revenues discussion

bond issue is in jeopardy

Want to drop the highest rate category from rate schedule (\$1.27/1000 > 500,000 gallons)

BEADD has analyzed basic rate schedule

12/8 @ 4 pm @ Farmers National Bank

Toadvice
will contact
C. Brander

12/8/98
4pm

HCAWA/Cynthia Mtg

Brown, Sturdivant, Hicks, Northcutt, Harover

Tony & Joe spoke earlier this week

Joe Lewis

- 1) Harrison Square - possible connection to either 16" (ex.)
or new main to Industrial Park (proposed).
- 2) White Oak - possible main extension from 16" main
dedicated to HCAWA - would cause problems
Walker area - either parallel along Gasser
Lane or new main along KY 36
- 3) Industrial Park - potential obstacles between City & County
Use of \$1.5 million in Grant Funds + \$0.5 million match
from City

Rates have not been discussed in detail but
must come before full HCAWA Board. Next
Mtg. 12/16/98

J. Brown asked for letter from HCAWA re: Industrial
Park water service. Cynthia needs to send letter

The Cynthiana Democrat—Aug. 14, 1997—3

City

Continued from CITY, front page

- Discussed doing away with the volume discount for heavy-use water customers. The most affected would be the Harrison County Water Association, which used 47 percent of the water that went through the water treatment plant last month. Brown said three or four industries would also be affected.

- Heard Brown say the city had been turned down for flood recovery grant money, because one of the three planned renovations was not flood related. Don Hassle of Bluegrass ADD told the commission at a meeting earlier this year, they could apply for money for all three of the renovations and that the fact that one of the renovations was not flood related would not affect the city's chances of obtaining a grant. McIlvain said Tuesday after receiving word that the city was turned down, that she was told the city was ill-advised.

- Approved payment of \$39,960 for work done to the Northside water tower. Joe Lewis of Quest Engineering is now recommending the city install a pipe inside the tank, because the riser, which is in the middle of the tank is corroded.

The repair would cost approximately \$23,000. However, Lewis said the alternative would cost much more. The pipe repair would last about 20 years, which is what he estimates is about the remaining life of the tank.

- Approved a resolution to apply for a HUD Community Development Block Grant to renovate the city's water infrastructure.

- Received a plaque of appreciation from the Committee for a Fabulous Fourth.

- Heard letters of thank you from Ebenezer and St. James churches for money donated to help with flood recovery.

- Awarded the city's dumping contract to Epperson Waste Disposal.

- Approved the first reading of a hazardous material ordinance.

- Accepted the retirement of Donald Grayson and the resignation of Jeremy Hubbard.

- Hired Donald E. Brooks in public works.

- Agreed to give the Harrison County Volunteer Fire and Rescue \$5,700 to replace equipment damaged while helping residents during the flood.

THURSDAY, JANUARY 27, 2000

City wants more money for county water

By LISA HURST

News writer

The City of Cynthiana will be revising its request to the Public Service Commission for a water rate increase after a study determined that the originally proposed increase is not enough.

Initially, the city planned an increase to contract customers of approximately \$1.60 per thousand gallons. The Harrison County Water Association, the city's only contract customer, filed a request with the PSC for an analysis of the city's cost to treat and distribute water.

The city had financial analysts and engineers conduct a study and the results were returned showing the city in actuality needed to ask for a \$2.20 per

thousand increase.

All of the information has been turned over to the PSC, who has scheduled a hearing for March 1. The PSC will make a ruling on the increase later this year.

In another matter, about 450 residents of Cynthiana will be receiving a household income questionnaire. The information is needed to help the city apply for Community Development Block Grants. The city can receive more federal and state funding if the moderate income level of its residents is below average, than if it is above average.

Commissioner Ray Lancaster said the 450 people will be selected randomly from water customers. He ask for the cooperation of everyone who receives a

Please turn to CITY, page 5

City

*Continued from
CITY, front page*

survey.

The city will be applying for a CDBG to help pay for a new \$7.5 million waste water treatment plant scheduled to be built within the next few years.

EXHIBIT

6

HARRISON COUNTY WATER ASSOCIATION
P. O. BOX 215
CYNTHIANA, KENTUCKY 41031
PHONE 234-4284

January 20, 2000

Hon. Bruce F. Clark
Hon. Michele M. Whittington
Stites & Harbison
Attorneys at Law
421 West Main Street
P. O. Box 634
Frankfort, Kentucky 40602-0634

Mrs. Virgie Wells, Mayor
City of Cynthiana, Kentucky
P. O. Box 67
Cynthiana, Kentucky 41031

Re: Proposed Adjustment of the Wholesale Water Service Rates of
the City of Cynthiana, Kentucky
Public Service Commission
Case No. 99-300

Dear Mr. Clark and Mayor Wells:

The Harrison County Water Association, Inc. met in monthly session on Wednesday, January 19, 2000, and the Board of Directors voted unanimously to make the enclosed proposal regarding a rate increase to the City of Cynthiana.

If you are in agreement, please let us know and we can enter into a formal Agreed Order with the Public Service Commission settling this matter and allowing the City of Cynthiana to implement this rate increase immediately.

EXHIBIT

6

EXHIBIT

6

Hon. Bruce F. Clark
Hon. Michele M. Whittington
January 20, 2000
Page 2

If you have any questions or comments about this, please call me.

Sincerely,

HARRISON COUNTY WATER ASSOCIATION, INC.

William R Toadvine

William Robert Toadvine
President

WRT:sjw

Enclosure

cc: Hon. Helen Helton, Executive Dir., Public Service Commission
Hon. Gerald Wuetcher, Public Service Commission

EXHIBIT

6

PROPOSAL

WHEREAS, the Harrison County Water Association, Inc. and the City of Cynthiana are involved in a rate increase before the Public Service Commissioner; and

WHEREAS, the parties are desirous of settling this dispute amicably between them because it is in the best interest of all customers of both utilities.

IT IS THEREFORE AGREED AS FOLLOWS:

1. The current water rates schedule effective July 1, 1992, is revised as follows:

First - 2,000 gallons - \$8.05 minimum
2,000 - 10,000 gallons - \$3.05 per 1,000 gallons
All additional gallons will be \$1.61 per 1,000 gallons

2. The Harrison County Water Association, Inc. further proposes to reimburse the City of Cynthiana for their proportionate share of the costs to the City for the expenses incurred for bringing water from the Main Licking River to the central distribution system during the 1999 drought.

3. The Harrison County Water Association, Inc. shall reimburse the City of Cynthiana for their proportionate share of any future expenses the City incurs in an emergency situation when the pump from the Main Licking River to the City of Cynthiana central distribution system is put into use.

EXHIBIT

6

Dated this 21 day of January, 2000.

HARRISON COUNTY WATER ASSOCIATION, INC.

BY: William R Toadvine
William R. Toadvine

ITS: President

EXHIBIT

6

Effective Date 7/1/92

-NOTICE-

WATER RATES

First - 2,000 gallons - \$8.05 minimum

2,000 - 10,000 gallons - \$3.05 per 1000 gallons

10,000 - 500,000 gallons - \$1.61 per 1000 gallons

Over 500,000 gallons - \$1.27 per 1000 gallons

Water rates for water sold to the Harrison County Water Association shall be the same as the rates charged for property within the City.

SEWER RATES

First - 2,000 gallons - \$4.51 minimum bill

2,000 - 500,000 gallons - \$1.83 per 1000 gallons

Over 500,000 gallons - \$.84 per 1000 gallons

OUTSIDE THE CITY LIMITS

2. That the rates for water service for customers outside the City limits of the City shall be 1.4 times higher than the foregoing rates for the use by customers within the City. The rates for sewer service outside the City limits shall be the same as for sewer service inside the City limits.

**CITY OF CYNTHIANA, KY.
Water Department**

M. C. SWINFORD (1857-1952)
J. THAXTER SIMS (1904-1978)
JOHN SWINFORD
RON MAHONEY
DAVID E. MELCHER
DOUGLAS

SWINFORD & SIMS, P.S.C.

ATTORNEYS AT LAW

CYNTHIANA, KENTUCKY 41031-0397

AREA CODE 606
PHONE 234 5820
P O BOX 397

EXHIBIT 7

October 26, 1987

Mr. Gene Graves
Farmers Home Administration
3220 Nicholasville Road
Lexington, KY 40503

Re: Harrison County Water Association, Inc.
Water Purchase Contract

Dear Gene:

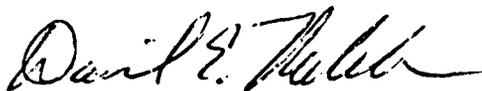
Please find enclosed the original of the Contract between the Harrison County Water Association and the City of Cynthiana for the purchase of water. It was necessary to adjust the previous contract due to the fact that the City had to undergo a capital outlay to run a raw water line to the main Licking River in order to supply the necessary water to the Cynthiana area.

At any rate, once you have had the opportunity to review the Contract, if you find it meets with your approval, we would greatly appreciate your signing it and returning it to me so that I can distribute it here to the City, the Water Association and also see the the engineer for Phase V gets a copy so that we can proceed with Phase V and also with our application to the Public Service Commission for approval of same.

If you need anything further, please advise.

Very truly yours,

SWINFORD & SIMS, P.S.C.



David E. Melcher
Attorney at Law

DEM:sce
Enclosures

cc: Harrison County Water Association, Inc.

cc: Parrott, Ely and Hurt

EXHIBIT 7

		<u>Average</u>	<u>Total</u>	<u>% of Total</u>
1 a	Eastside	2,196,767	26,361,200	9.22%
b		15,816	189,790	0.07%
2 a	Webber	168	2,020	0.00%
b		5,087,392	61,048,700	21.34%
3	Stokley Lane	7,200,492	86,405,900	30.21%
4	North Cynthiana	3,016,100	36,193,200	12.65%
5	Millersburg	39,867	478,400	0.17%
6 a	White Oak	26,065	312,780	0.11%
b		17	200	0.00%
7	Old Lair	300,167	3,602,000	1.26%
8	Republican	5,953,650	71,443,800	24.98%

23,836,499 286,037,990

		<u>Average</u>	<u>Total</u>	<u>% of Total</u>
1 a	Eastside	2,167,855	23,846,400	8.35%
b		33,699	370,690	0.13%
2 a	Webber	405	4,460	0.00%
b		5,348,518	58,833,700	20.60%
3	Stokley Lane	7,585,645	83,442,100	29.21%
4	North Cynthiana	3,189,636	35,086,000	12.28%
5	Millersburg	47,964	527,600	0.18%
6 a	White Oak	28,206	310,270	0.11%
b		9	100	0.00%
7	Old Lair	364,091	4,005,000	1.40%
8	Republican	7,202,218	79,224,400	27.73%

25,968,247 285,650,720

9

EXHIBIT 6

SUMMARY OF TEST PERIOD COSTS

	WATER PRODUCTION	TRANSMISSION & DISTRIBUTION	METERS & SERVICES	CUSTOMER ACCOUNTS	TOTALS
Operation & Maintenance	328,590 ^{(3),A}	99,725 ^{(3),A}	745 ⁽¹⁾	112,808 ⁽²⁾	\$ 539,869
Depreciation	201,831 ^{(3),A}	77,180 ^{(3),A}	1,245 ⁽¹⁾	5,137 ⁽²⁾	\$ 285,393
Debt Service	439,177 ⁽⁴⁾	69,730 ⁽⁴⁾			\$ 508,907
Debt Service Coverage @ 26%	109,794	17,432			\$ 127,227
	1,077,393	264,068	1,990	117,746	\$ 1,481,196
Less: Debt Service					508,907
Debt Service Coverage					127,227
Total Water Operating Expenses per Audit					\$ 858,336

(1) See Exhibit 5, Item 1

(2) See Exhibit 5, Item 2

(3) Costs for 1999 based on document provided by City and contained in Appendix A

(4) Per breakdown of 1992 Bond Issue provided by City:

^A See Cost Allocation sheet

	%	Proportioned Debt Service			3-year Average
		1999	2000	2001	
Water Production:	68.94%	\$448,239	\$497,133	\$434,109	\$459,177
Trans. & Dist.:	10.93%	70,659	69,405	68,925	69,730
Sewer:	20.23%	131,151	128,480	127,572	129,051
Total Debt Service per Audit:	100.00%	\$648,249	\$634,999	\$630,606	\$637,958

1978 Bond Issue

Purpose	Allocation	Amount	% of Original Issue
Refund 1956 Issue	Sewer	\$115,000	4.08%
Refund 1964 Issue	Water Production	820,000	29.08%
Refund 1969 Issue	Water Distribution	40,000	1.42%
Refund 1971 Issue	Water Distribution	450,000	15.95%
New Sewer Construction	Sewer	1,395,000	49.47%
Total		\$2,820,000	100.00%

1997 Bond Issue

Purpose	Allocation	Amount	% of Original Issue
Water Intake to Licking River	Water Production	\$3,231,066	76.82%
Engineering/Design	Water Production	166,480	3.91%
Water Tower	Water Distribution	390,998	9.17%
Sewer	Sewer	472,999	11.10%
Total		\$4,261,533	100.00%

	1978 Issue		1997 Issue		Total	
Sewer	\$647,955	23.6%	\$490,620	11.1%	\$1,138,575	20.2%
Water Production	351,968	29.1%	3,524,066	79.7%	\$3,875,934	66.6%
Water Distribution	210,177	17.4%	405,314	9.2%	\$615,491	10.9%
Total	\$1,210,000	100.0%	\$4,420,000	100.0%	\$5,630,000	100.0%

EXHIBIT 10

EXHIBIT 7

**ALLOCATION OF PRODUCTION AND TRANSMISSION COSTS
AND
DETERMINATION OF WHOLESALE RATE**

	<u>TOTAL COSTS</u>	<u>ALLOCATION FACTOR</u>	<u>COST ALLOCATED TO HCWA</u>
I. Test Period Costs			
1.1 <u>Operating & Maintenance</u>			
Water Production	\$ 326,590	0.4436 ⁽³⁾	\$ 144,863
Transmission & Distribution	99,725	0.2325 ⁽⁵⁾	23,191
1.2 <u>Debt Service</u>			
Water Production	439,177	0.4436	194,802
Transmission & Distribution	69,730	0.2325	16,216
1.3 <u>Debt Service Coverage</u>			
Water Production	109,794	0.4436	48,700
Transmission & Distribution	17,432	0.2325	4,054
1.4 <u>Depreciation</u>			
Water Production	201,831	0.4436	89,524
Transmission & Distribution	77,180	0.2325	17,946
TOTAL TEST PERIOD COSTS	\$ 1,341,461		\$ 639,298
II. Test Period Adjustments			
2.1 <u>Cost of 1998 Drought</u>			
Water Production	\$ 26,283	0.4436	11,658
	<i>HCWA believes that it should participate in these costs similar to other cost allocations</i>		
2.2 <u>Rate Case Expense</u>			
	\$2,657 ⁽²⁾	0.4436 ⁽³⁾	\$ 1,183
2.3 <u>Raw Water Pump</u>			
Depreciation	\$ 9,921 ⁽⁵⁾	0.4436	\$ 4,401
Total Adjustments	\$ 38,871		\$ 17,242
Total Cost	\$ 1,380,331		\$ 556,539

$$\text{Wholesale Rate} = \frac{556,539}{295,300.1} = 1.88 \text{ per 1000 Gallons}$$

⁽¹⁾ Exhibit 5, Item 3⁽²⁾ Exhibit 5, Item 4. Allocation factor equals 1.0 because rate case is specifically for the purpose of determining HCWA rate.⁽³⁾ Exhibit 5, Item 5.⁽⁴⁾ Exhibit 5, Item 6. Allocation factor is usage factor calculated in Exhibit 4.⁽⁵⁾ Water Production Factor, See Exhibit 4⁽⁶⁾ Transmission Factor, See Exhibit 4EXHIBIT 10

City of Orem
Cost Analysis
FYE June 30, 1998

OPERATING REVENUES
Water and Sewer Service

Water Production	Water Distribution	Total Water	Sewer Collection	Sewer Treatment	Total Sewer	1999 Fund Total	1998 Fund Total
		\$ 1,147,294			\$ 482,763	\$ 1,630,057	\$ 1,629,118
		15,972			15,666	31,521	39,686
		<u>1,163,211</u>			<u>498,319</u>	<u>1,661,529</u>	<u>1,668,804</u>

OPERATING EXPENSES

Salaries	108,825	\$ 53,880	172,585	\$ -	114,182	114,182	286,787	255,080
Overtime and Holiday Pay	7,897		7,897		1,031	1,031	8,928	15,644
Salaries/CA/Field Public Works		72,045	72,045	30,507	9,894	30,507	102,592	22,501
Employee Retirement	5,845	4,773	13,638		8,242	8,242	23,632	45,875
Medical and Hospital Insurance	17,798	9,595	27,243		23,712	23,712	30,955	79,718
Special Security	8,631	4,948	13,278		8,242	8,242	21,521	188
Unemployment							8,550	7,199
Workers' Compensation	2,488	1,340	3,828		4,722	4,722	725	725
Christmas Bonus	276	149	425		300	300	68,053	153,092
Regrets	4,176	1,903	6,105	48,685	14,249	62,914	92,375	108,502
Electricity	49,632		49,632	5,028	37,712	42,743	29,140	30,443
Heating	425		425	15,329	29,140	15,923	18,249	1,100
Consulting Engineers					874	874	4,866	5,583
Telephone	3,994		3,994		10,887	10,887	18,984	17,832
Insurance	8,117	1,221	8,117		2,069	2,069	3,290	3,611
Gas and Oil					396	396	866	646
Paving System	468		468		2,288	2,288	19,084	14,861
Columbia Gas	15,796		16,796		7,929	7,929	70,712	92,744
Postage	29,839	7,975	26,839		18,963	23,630	25,542	25,542
Chemicals	3,577		3,577		6,001	6,001	2,000	2,000
Analysis and Testing	500	500	1,000	500	600	1,000	1,000	1,000
Audit	988	195	798		182	182	5,246	1,495
Bond Fees					5,164	5,164	95,446	108,595
Office Supplies	35,071	28,549	78,620		21,826	21,826	1,073	3,349
Other Supplies	432	91	432		813	813	1,073	6,395
Linens Services	169		169		2,467	2,467	6,472	6,395
Travel and Training	2,805	1,402	4,005		393	393	625	625
Clothing Allowance	393		393		124,994	124,994	441,580	428,080
Testing Equipment	201,831	83,582	285,393	31,283		156,287	441,580	428,080
Depreciation	11,820		11,820			11,820		11,820
Amortization								
Total Operating Expenses	529,421	296,540	825,062	132,014	479,293	611,509	1,428,571	1,408,374

OPERATING INCOME

	\$ 338,149	\$ 362,967	\$ 1,276,215	\$ 191,492	\$ 881,592	\$ 873,256	\$ 2,149,475	\$ 1,991,413
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NET EXPENSES PLUS DEBT SERVICE AND CAPITAL ASSETS PURCHASED

Less Amortization	(11,820)	28,645	(11,820)				(11,820)	(11,820)
Add Bond Principal	235,235	20,274	254,890		120,120	120,120	385,000	315,000
Bond Interest	160,878	15,585	181,150	99,478	82,149	263,299	279,659	279,659
Purchase of capital assets	1,409		1,409		59,478	59,478	76,425	

Notes:
1 Audit fees revised to reflect 50% allocation between Water & Sewer Departments
2 Bond fees revised to reflect allocation between Water & Sewer Departments per City's Exhibit C - Summary of Total Funded Costs

**KENTUCKY PUBLIC SERVICE COMMISSION
TRAINING SEMINAR FOR WATER DISTRICT PERSONNEL****DAY ONE**

- 8:00 - 8:30** **Registration and Continental Breakfast**
- 8:30 - 8:45** **Welcome and Program Overview**
- 8:45 - 9:30** **Tariff and Purchased Water Adjustment Filings – Carryn Lee**
A discussion on tariff filings, including information needed to adjust nonrecurring charges (such as connection fees and reconnect fees), along with a review of other various types of charges, and a brief overview of how to file a purchased water adjustment.
- 9:30 - 10:15** **How to File a Rate Case – Dennis Jones**
A discussion on how to file various types of rate cases and their filing requirements. Commission procedures that are followed in processing general rate cases and alternative rate filing applications.
- 10:15 - 10:30** **Break**
- 10:30 - 11:30** **Legal Issues in the Operation of a Water District – Jerry Wuetcher**
Review of statutes on the formation/operation of a district. Covered Topics: KRS Chapter 74, Open Records Act, Open Meetings Act, & the Claims Against Local Government Act.
- 11:30 - 12:45** **Lunch**
- 12:45 - 1:15** **Financial Audits – Beverly Davis**
A discussion of the problems most frequently noted by the Financial Audit Branch during the course of its examinations. Commission requirements affecting the financial operations of the utility, such as customer deposits, will also be reviewed.
- 1:15 - 1:35** **Phase-In Rates – Dennis Jones**
An overview of the definition of phased in rates. Would your utility and customers benefit from a gradual increase in rates?
- 1:35 - 1:55** **Rate Indexing – Brent Kirtley**
A review of rate indexing, acceptable adjustment factors, and how to request.
- 1:55 - 2:15** **System Development Charges – Carryn Lee**
A discussion regarding the responses received in Administrative Case No. 375, An Investigation Into the Design and Use of System Development Charges
- 2:15 - 2:30** **Break**
- 2:30 - 3:30** **PSC & Water District Relations: Recurring Issues – Jerry Wuetcher**
A review of recurring legal issues that water districts face before the PSC. These include discontinuance of service, certificates of public convenience and necessity, the filed rate doctrine, and free water.
- 3:30 - 4:30** **Line Loss Reductions & PSC Inspections – Mike Newton**
Methodology for justifying accounted for and unaccounted for line loss. Field procedures for finding water line leaks and discussion of financial feasibility. A discussion of the Commission's on site inspection of the utility's office and field procedures.

**KENTUCKY PUBLIC SERVICE COMMISSION
TRAINING SEMINAR FOR WATER DISTRICT PERSONNEL****DAY TWO**

- 8:00 - 8:30** **Continental Breakfast**
- 8:30 - 9:45** **Rate Design and Cost of Service – Carryn Lee**
A summary on preparing a simple cost of service study and the design water rates.
- 9:45 - 10:00** **Break**
- 10:00 - 10:20** **Annual Reports – Beverly Davis**
A brief discussion of the Commission's annual report filing and uniform system of accounts. Methods utility commissioners and board members can use to maintain appropriate oversight of the financial operations of the utility will also be discussed.
- 10:20 - 11:15** **Municipal Utility & Public Utility Relations – Jerry Wuetcher**
A review of the history of PSC regulation of municipal utility rates with special emphasis on the Kentucky Supreme Court's decision in Simpson County Water District v. City of Franklin. Presentation will discuss how the PSC has implemented this decision and some points that cities and water districts should consider when drafting water supply agreements..
- 11:15 - 11:30** **Break**
- 11:30 - 12:00** **Extension of Service – Mike Newton**
A review of the requirements of water line extensions for individuals, groups and developers. Discuss rebate procedures to customers who have paid a contribution in aid of construction.
- 12:00 - 12:45** **Ethics Update / Legal Question & Answer Session – Jerry Wuetcher**
A review of ethics laws and principles that may affect water district commissioners. The remaining time will be spent addressing legal questions that attendees may have.

Harrison County Water Association

P.O. Box 215
U.S. 27 South
Cynthiana, Kentucky 41031

Phone 606-234-4284

December 15, 1999

The Harrison County Water Association met in regular session at the Association office on December 15, 1999 .
The meeting was called to order at 7:32 P.M. by William R. Toadvine. Members of the Board present included:

William R. Toadvine	President
J. Frank Marsh	Vice President
Charles Tribble	Secretary
J. Larry Douglas	Treasurer
Harry D. Varner	Member
Johnny Hehr	Member
Welborn Adams	Member

Also Present	Danny D. Northcutt	Manager
	Jo Mastin	Attorney
	Tony Harover	Engineer
	Charles Bruner	CPA

The minutes of the previous meetings were approved on a motion by Varner and seconded by Douglas.

The financial report for the month of November 1999 was approved on a motion by Tribble and seconded by Douglas.

Harover reported on financing and grants. Reports are discouraging. Much discussion was generated concerning the rate increase requested by the City. This is a complicated problem with too many avenues available to both parties. City to provide cost study analysis. No decision made.

Adams made motion to approve meter adjustments. Hehr seconded. Motion carried.

Douglas made motion to pay Kentucky Rural Water Association dues of \$825.00. Varner seconded. Motion carried.

Tribble made motion to endorse the resolution from Bluegrass ADD to Congress concerning Corps of Engineers plan of work. Hehr seconded. Motion carried with no nays. Exhibit attached.

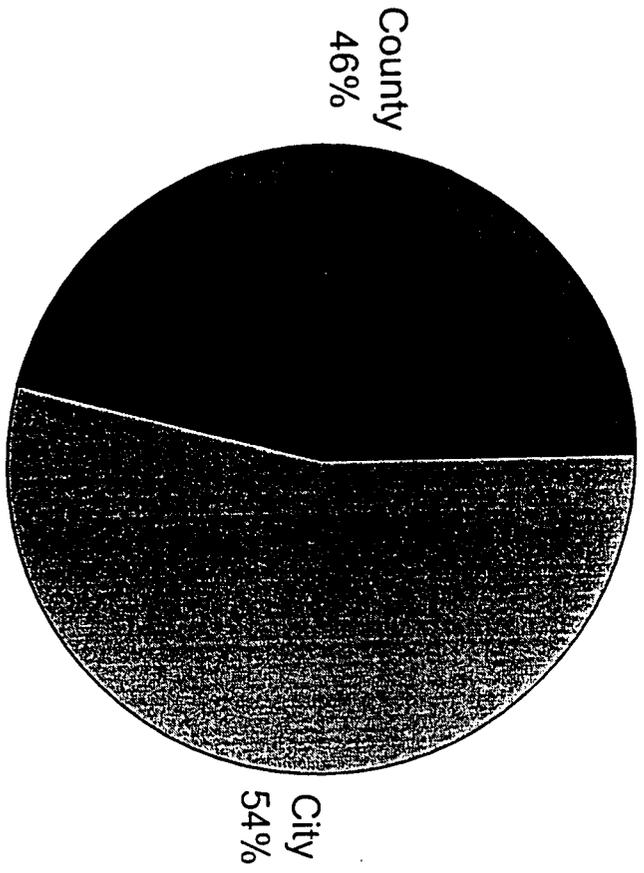
Marsh made motion to present all full time employees with a \$200.00 Christmas bonus including John Hicks. Cindy Traylor is to receive a \$100.00 Christmas Bonus. Adams seconded. Motion carried.

Adams made motion to adjourn. Hehr seconded. Motion carried.

Submitted by:


Charles Tribble
Secretary
Harrison County Water Association

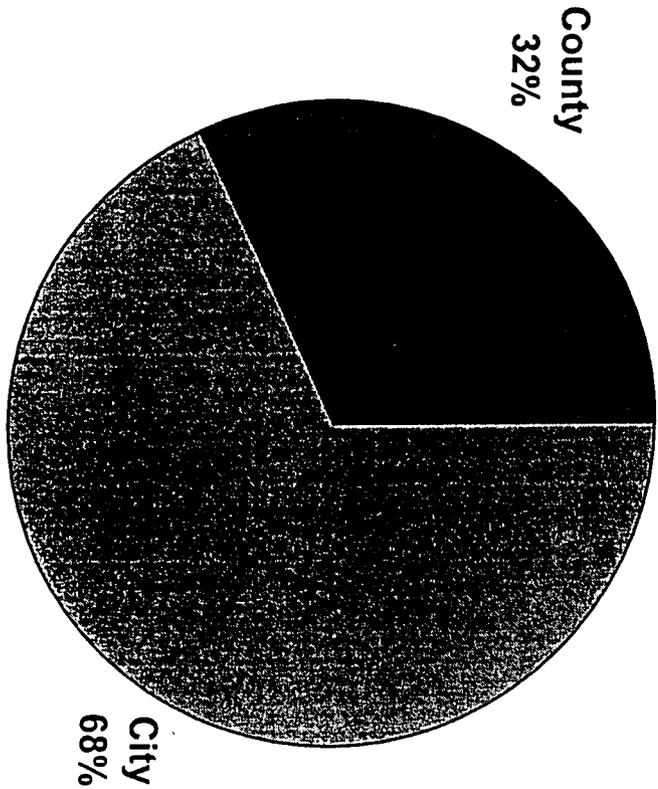
CITY VS COUNTY WATER USAGE 8/1/98



City
County

WATER USAGE - 8/1/98	
	GALLONS
City	29,054,700
County	24,699,400
TOTAL	53,754,100

CITY VS COUNTY WATER REVENUE 8/1/98

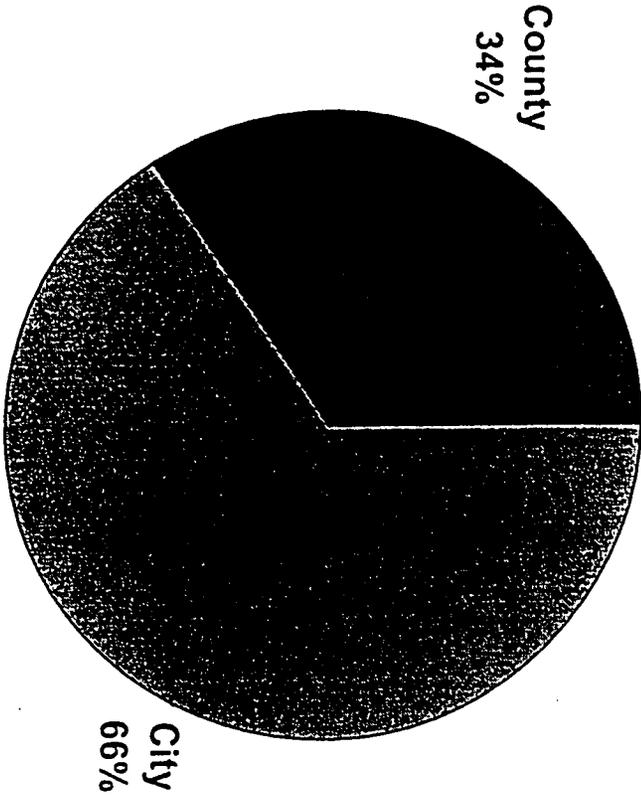


City
County

WATER REVENUE - 8/1/98	
City	Revenue \$ 66,867.68
County	31,554.59
Total	\$ 98,422.27

CITY VS COUNTY WATER REVENUE 9/1/98

EXHIBIT 14b



City
County

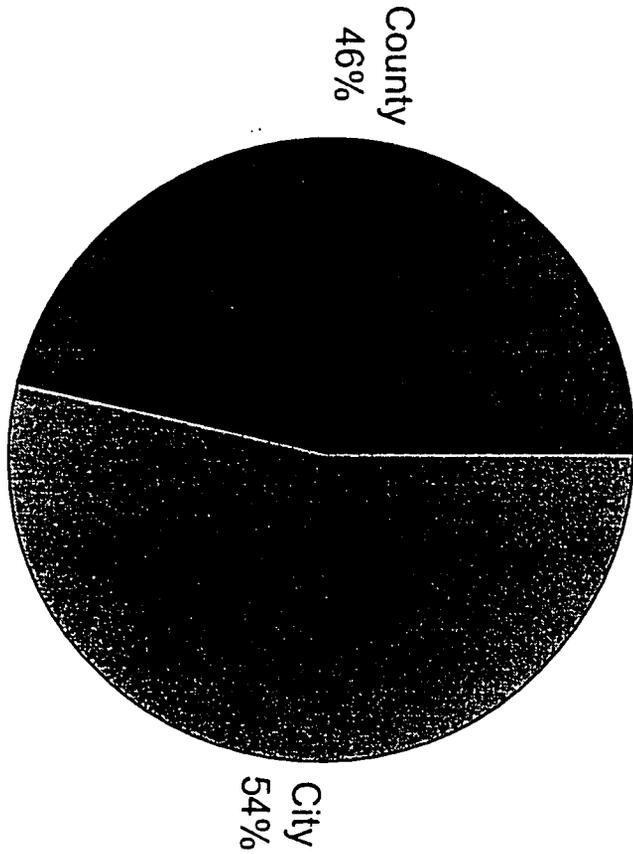
EXHIBIT 14b

WATER REVENUE - 9/1/98	
City	Revenue \$ 67,990.28
County	35,253.21
Total	\$ 103,243.49

EXHIBIT

14c

CITY VS COUNTY WATER USAGE 10/1/98



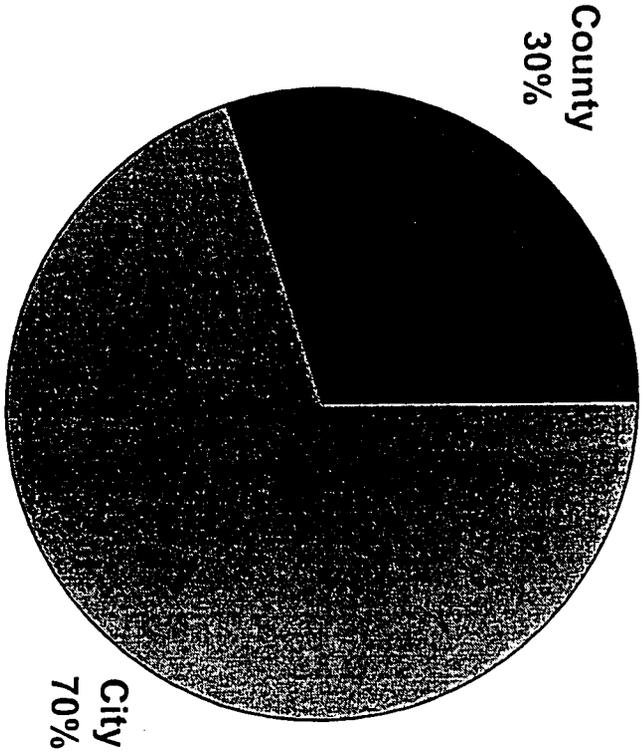
City
County

WATER USAGE		10/1/98
GALLONS		
City		33,634,800
County		28,971,100
TOTAL		62,605,900

EXHIBIT

14c

CITY VS COUNTY WATER REVENUE 11/1/98



WATER REVENUE -		11/1/98
City	Revenue	\$69,702.79
County		29,991.60
Total		\$ 99,694.39

City
County

EXHIBIT 15

City of Cynthiana Rate Comparison

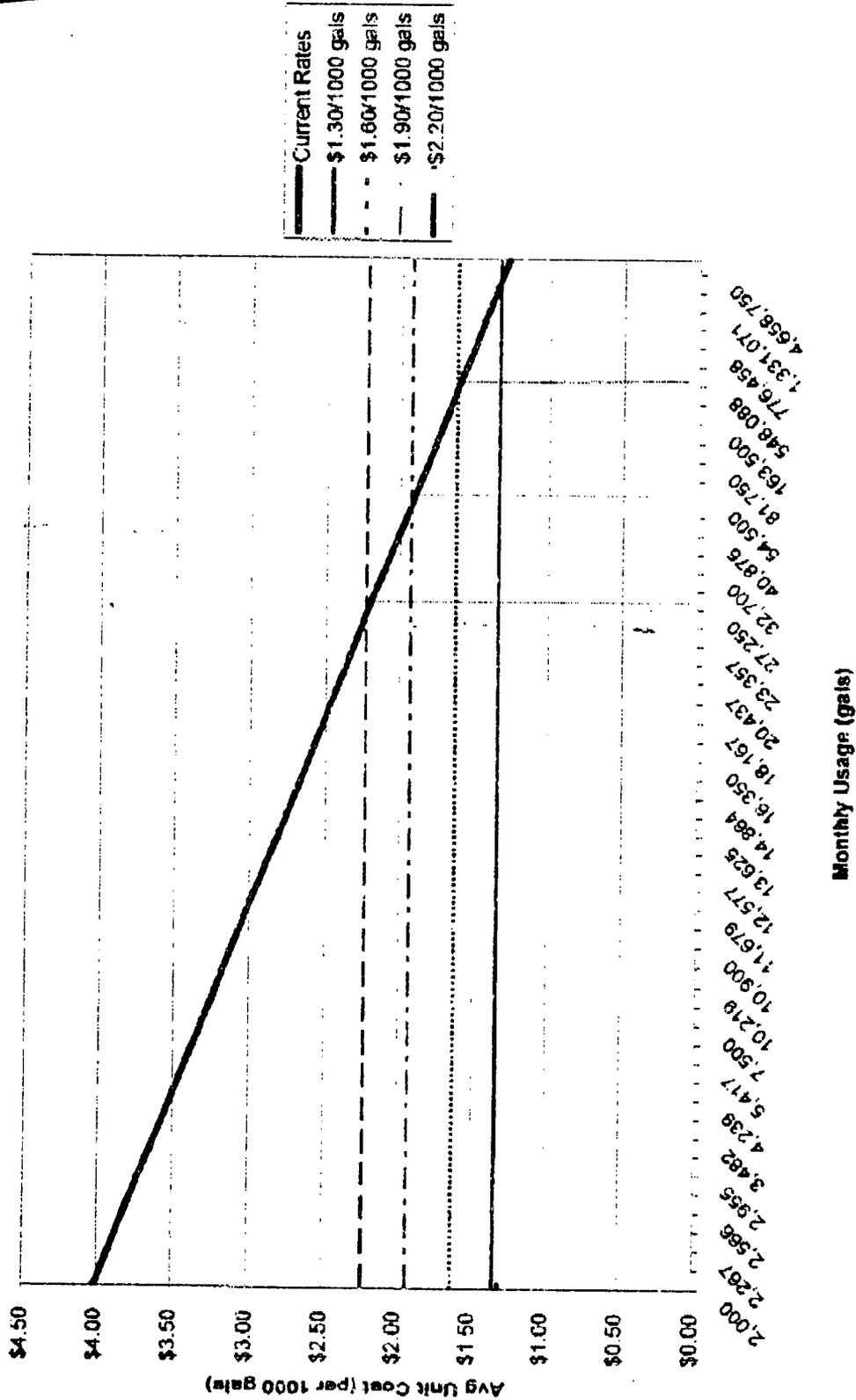


EXHIBIT 15

EXHIBIT 16

717

EFFECTS OF WATER RATE INCREASE (DROPPING LAST TIER) - (Based on May 99 Billing)

	Usage	Current Cost	New Cost	Monthly Increase	Annual Increase
Trinity	563,700 \$	902.25 \$	923.91 \$	21.66 \$	259.92
3M Meter #1	56,600 \$	123.58 \$	123.58 \$	- \$	-
3M Meter #2	93,100 \$	166.24 \$	166.24 \$	- \$	-
3M Meter #3	2,452,600 \$	3,301.15 \$	3,965.04 \$	663.89 \$	7,966.68
Grede	1,940,380 \$	2,650.63 \$	3,140.36 \$	489.73 \$	5,876.76
Bundy	3,028,740 \$	4,032.85 \$	4,892.62 \$	859.77 \$	10,317.24
Harr Co Water	25,517,940 \$	32,594.01 \$	41,090.41 \$	8,496.40 \$	101,956.80
Total				10,531.45 \$	126,377.40

Customers not effected by change:

Customers not effected by change:	Usage
Solutions Dispersions	489,800
Bullard	332,500
Hospital Meter #1	458,500
Hospital Meter #2	493,800
Housing - multiple meters all under 500,000	
Schools - multiple meters all under 500,000	

EXHIBIT 16

PIPE ECONOMY

EXHIBIT 17

EQUATION OF PIPE

(Based on Nominal Pipe Inside Diameters)

loss in the smaller pipe, and the volume delivered varies about as their diameter ratio to the 2.65 power. This table is calculated on this basis. The figures opposite the intersection of any two sizes is the number of the smaller-sized pipe required to equal one of the larger; thus one 6-inch equals 2.9 four-inch.

It is frequently desired to know what number of pipe of a given size are equal in carrying capacity to one pipe of a larger size. At the same velocity of flow the volume delivered by two pipe of different sizes is proportional to the squares of their diameters; thus one 4-inch pipe will deliver the same volume as four 2-inch pipe. With the same head, however, the velocity is

Equation of Pipe

Diam. Inches	1	2	3	4	5	6	7	8	10	12	14	16	18	20	24	30	36	42	48
2	39.4	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0
3	116.	3.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0
4	247.	6.3	2.1	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0
5	447.	11.3	3.9	1.8	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0
6	724.	18.4	6.3	2.9	1.6	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0
7	1,050.	27.7	9.4	4.4	2.4	1.6	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0
8	1,308.	39.4	13.5	6.3	3.5	2.1	1.4	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0
10	2,470.	71.2	24.9	11.8	6.3	3.9	2.6	1.6	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0
11	3,080.	89.4	31.3	14.6	8.1	5.0	3.3	2.3	1.3	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0
12	3,720.	115.	39.4	18.4	10.2	6.3	4.2	2.9	1.6	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0
13	4,380.	143.	48.7	22.7	12.6	7.8	5.2	3.6	2.4	1.2	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0
14	5,060.	174.	59.3	27.7	16.3	9.4	6.3	4.4	2.8	1.5	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0
16	7,308.	268.	89.4	39.4	21.8	13.5	8.9	6.3	3.5	2.1	1.4	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0
18	10,050.	394.	116.	46.3	25.6	15.8	10.5	7.4	4.1	2.6	1.7	1.2	1.0	1.0	1.0	1.0	1.0	1.0	1.0
19	11,308.	447.	133.	51.8	28.8	18.4	12.2	8.6	4.7	2.9	1.9	1.4	1.0	1.0	1.0	1.0	1.0	1.0	1.0
20	12,700.	497.	153.	57.2	31.3	21.2	14.1	9.8	5.5	3.4	2.2	1.6	1.2	1.0	1.0	1.0	1.0	1.0	1.0
22	14,250.	575.	186.	65.3	34.4	24.3	16.2	11.3	6.3	3.9	2.6	1.8	1.3	1.0	1.0	1.0	1.0	1.0	1.0
24	15,960.	674.	224.	74.2	38.4	28.2	18.4	12.6	7.4	4.1	2.9	2.1	1.6	1.0	1.0	1.0	1.0	1.0	1.0
30	24,700.	1,050.	394.	115.	63.8	39.4	26.2	18.4	10.2	6.3	4.3	2.9	2.1	1.6	1.0	1.0	1.0	1.0	1.0
36	37,200.	1,590.	593.	174.	94.	51.8	34.4	24.3	13.5	8.1	5.0	3.3	2.3	1.3	1.0	1.0	1.0	1.0	1.0
42	50,600.	2,180.	806.	233.	126.	70.2	46.3	31.3	18.4	10.2	6.3	4.3	2.9	2.1	1.6	1.0	1.0	1.0	1.0
48	67,400.	2,970.	1,080.	313.	163.	94.	60.2	41.8	25.6	15.8	10.2	6.3	4.3	2.9	2.1	1.6	1.0	1.0	1.0
48	67,400.	2,970.	1,080.	313.	163.	94.	60.2	41.8	25.6	15.8	10.2	6.3	4.3	2.9	2.1	1.6	1.0	1.0	1.0

EXHIBIT 17

08.04.98 12:00 PM *PARROTT. ELY HURT P12

EXHIBIT

18*Cynthia*

Sheet 1

HYDRANT FLUSH LOCATION	RECORD MARCH 1988		FLOW	GPM	HYD. STYLE
	HYD #	STATIC			
Bunoy Tower	131	44	40		1180 U.S. Pipe
Concept Packing Group	132	48	38		1180 TCNV
Burly Tubing	133	46	32		1085 Darling
White Oak Place	133A	44	22		874 Mueller
White Oak Place	133B	48	22		874 Mueller
Cove's M Dixie	134	48	22		874 Darling
Double M Dixie	135	48	20		832 Darling
Westside School	143	54	28		927 Darling
107 Sycamore Drive	126	50	28		847 Mueller
Sycamore Drive	137	50	22		874 Dresser
Sycamore Drive Ext.	290	48	18		710 Kennedy
Sycamore Drive Ext.	291	44	18		710 Kennedy
Ashwood Drive	142	58	20		947 Dresser
Raintree Drive	141	56	26		947 Dresser
Juniper Drive	138	50	24		913 Dresser
White Oak Drive (end)	139	48	20		832 Dresser
White Oak & Raintree	140	50	22		874 Dresser
Raintree Ext.	289	42	18		670 Mueller
Jones Lane	145	34	12		580 Mueller
Highway 36	146	38	8		480 Dresser
Old Webbers	147	62	10		530 Darling
Cleveland Twist ATK	129	50	40		1180 Kennedy
Old Production Plating	232	48	26		947 Darling
Cladonbon & Pleasant	231	50	48		1281 Mueller
Fifth & Pleasant	230	58	50		1318 Mueller
Fourth & Pleasant	229	64	58		1397 Mueller
Belmont Apts.	178	64	48		1280 Dresser
Third & Pleasant	228	74	62		1487 Waterous
Second & Pleasant	227	60	70		1558 Mueller
First & Pleasant	226	50	80		1685 Mueller
First & Short	233	90	6		480 Mueller
First & Smith	234	90	8		480 Mueller
Broadway & Western	245	57	42		1213 Mueller
209 Western Ave.	249	63	34		1089 Mueller
Western & Parkway	250	64	34		1089 Mueller
311 Western Ave.	251	64	20		832 Mueller
Western & Skyview	252	64	20		832 Mueller
Cladonbon & Skyview	253	50	20		832 Mueller
Cladonbon & Parkway	254	55	48		1290 Mueller
Cladonbon & Broadway	247	58	22		874 Mueller
Broadway & Fifth Street	246	62	22		874 Mueller
Broadway & Fourth St.	235	85	9		480 Mueller
Broadway & Third St.	238	72	2		240 Mueller
212 Third Street	237	78	0 > 170		Mueller
Broadway & Second	235	84	14		630 Mueller

EXHIBIT 18

08.04.98 12:00 PM *PARROTT, ELY HURT P13

EXHIBIT 18a

Sheet 1

Test #4
Test #7

210 Second Street	238	78	181	710 Mueller
Elm Street	202	60	74	1598 Waterous
Auger Scope (back)	281	82	64	1489 Mueller
Auger Scope (front)	260	84	54	1108 Mueller
Riggs & Cherokee	256	84	54	1370 Mueller
211 Riggs	241	60	60	1445 Darling
305 Riggs	242	70	60	1445 Darling
Riggs & Fourth	240	52	50	1316 Darling
Riggs & Federal	243	55	44	1000 Darling
130 Federal Drive	244	68	32	1055 Darling
108 Federal	245	79	34	1088 Darling
108 Shuance Drive	289	82	24	813 Kennedy
Cherokee	258	72	121	580 Darling
13 Cherokee	257	79	8	480 Darling
Cherokee	268	92	8	480 Darling
Grays Run Est		100	10	530 Mueller
Grays Rv Est		98	8	530 Mueller
Grays Run Est		100	8	480 Mueller
Grays Run Est	73	52	20	947 Darling
Grandview & Pike	60	46	12	500 Mueller
Grandview & Taylor	74	54	10	630 Mueller
115 Grandview	75	50	12	580 Mueller
121 Grandview	76	62	12	580 Mueller
141 Grandview	77	62	12	580 Mueller
128 Taylor Drive	78	63	12	580 Mueller
118 Taylor Drive	78	63	14	630 Mueller
111 Taylor Drive	71	52	8	480 Mueller
100 Charlotte	72	62		
End Of Charlotte	70	52	10	530 Mueller
Queenway & Charlotte	67	80	10	530 Darling
105 Queenway	88	52	8	480 Darling
108 Farway	68	48	8	480 Mueller
End Of Farway	66	45	8	480 Darling
Queenway & Meadow	63	62	8	480 Darling
Queenway & Bradford	64	78	8	480 Darling
108 Bradford	65	79	8	480 Darling
End Of Meadow	58	96	50	1316 Mueller
Grand Haven	57	82	40	1180 Mueller
J Mur Apts	58	60	42	1213 Darling
Town Plaza Car Wash	56	90	48	1260 Darling
Clean Acres	60	62	36	1118 Darling
Hayden Equipmant	61	46	10	670 Darling
Eastside School	62	44	8	710 Darling
Eggrude School	81	44	28	687 Darling
Pike & Highland	82	46	12	580 Mueller
Oxley & Sherwood	83	43	12	580 Darling
Oxley & Sonley	84	58	12	580 Darling
Oxley & Lois	85	82	16	870 Mueller
End Of Confederate	88	50	14	630 Mueller
Confederate & Regal Hill	87	46	12	580 Mueller
101 Confederate	88	44	12	580 Mueller
Middle Of Sherwood				

EXHIBIT 18a

08.04.98 12:00 PM *PARROTT. ELY HURT P14

EXHIBIT 186

Sheet 1

Confederate & Pike	89	30	8	460 Mueller
Country Club	90	46	10	530 Kennedy
Hospital (Arts Bldg)	162	34	12	380 Mueller
Hospital (East)	163	32	10	530 Mueller
Hospital (Back)	164	30	10	530 Mueller
Hospital (Boiler Room)	Can't Flush Floods Morton Building			
Culpepper Drive	91	34	8	480 Dresser
Culpepper Drive	92	40	8	410 Dresser
Culpepper Drive	93	48	10	530 Dresser
Culpepper Drive	94	48	10	530 Mueller
Chelsea Dr (Rugh)	95	48	10	530 Mueller
101 Chelsea Drive	96	54	10	530 Mueller
Chelsea Drive	97	58	10	530 Mueller
Chelsea Drive	98	52	10	530 Mueller
Chelsea Drive	99	Hyd Hidden By Bushes		Landscaping Can't Flush
Chelsea Drive	100	48	8	480 Mueller
Chelsea Drive	101	44	8	480 Mueller
Chelsea Drive	102	34	8	480 Darling
Rosebay Lane				
Cherry Lane	103	44	8	460 Mueller
Sainford Farm	273	50	18	670 Bourbon
234 North Elmarch	52	90	70	1555 Mueller
148 North Elmarch	54	64	0 > 170	Bourbon
144 North Elmarch	51	Can't Test 2 1/2 Nipple Cross Threaded		Mueller
Hillside Apts	53	64	10	530 Mueller
Elmarch & Wilson	48	52	30	1021 Mueller
Elmarch & Pleasant	42	58	46	1261 Mueller
Elmarch & Pike	41	50	38	1150 Mueller
515 East Pike	160	50	32	1055 Darling
Bridge & Elmarch	167	64	50	1316 Mueller
Elmarch & Battle Grove	165	48	38	1150 Mueller
Elmarch & Old Lar	180	54	42	1213 Mueller
Community Service Center 180 B		58	18	770
Elmarch & Springdale	190	62	52	1342 Mueller
Elmarch & Stone	191	54	12	680 Mueller
Stone Ave	192	62	20	832 Mueller
Wespar & Springdale	189	62	48	1200 Darling
Springdale Extension	188	80	44	1238 Darling
Old Jockey Bldg	206	54	42	1213 Mueller
Old Jockey Bldg (Back) 206 B		54	38	1150 Dresser
Egemoni Manor	205	62	32	1055 Darling
Football Stadium	214	54	32	1055 VOCT
High School (Front)	215	58	48	1261 Mueller
Stand Pipe Hill	221	64	58	1421 Mueller
Parkland Hts	220	58	48	1290 Dresser
RFCG Farm	223	98	58	1745 Metropolitan
Suburban Mobile Home	279	90	82	1685 Mueller
Suburban Mobile Home	280	94	84	1705 Mueller
Grade Farm East	281	98	82	1685 Mueller
Grade Farm East	224	98	62	1685 Mueller
National Guard Armory	225 Broken Stem Can't Flush			
Hullard (By Pond)	282 Can't Flush Electric Fence Around Pond			
Bulard	283	100	78	1643 Mueller

EXHIBIT 186

EXHIBIT

03.04.98 12:00 PM *PARROTT, ELY HURT P15

Sheet 1

Bullard	284	94	78	1643 Mueller
Bullard	285	94	80	1665 Mueller
Bullard	286			Mueller
Bullard	287	94	82	1665 Mueller
Bullard	288			Mueller
Old Lar & Brooks Street	18	52	0 > 170	Mueller
222 Brooks Street	204	62	20	632 Mueller
Cedarcrest Court	203	48	24	913 Mueller
140 Leewood Drive	201	60	18	870 Dresser
Glennwood Court	202	44	18	870 Dresser
167 Leewood Drive	200	44	14	630 Dresser
181 Leewood Drive	198	44	9	630 Dresser
Robynwood Apts	277	40	8	480 Mueller
138 Robynwood Drive	195	40	12	580 Dresser
Robynwood & Dalewood	199	44	16	670 Dresser
114 Robynwood Drive	194	48	18	710 Dresser
102 Robynwood Drive	193	52	20	832 Dresser
Highland & Old Lar	182	48	0 > 170	Mueller
Old Lar (John Curtis)	197	Can't Push Foods Carport		Mueller
Old Lar	198		0 > 170	Mueller
Church & Pleasant	28	88	10	530 Mueller
Church & Wilson	27	80	10	530 Mueller
Oodville & Church	28	80	18	530 Mueller
218 North Church	25	80	6	410 Mueller
North Church & Reynolds	24	38	6	410 Mueller
Hill Florist	23	94	30	1021 Bourbon
218 Wilson Ave	35	86	8	480 Mueller
Vine & Wilson	46	80	0 > 170	Mueller
Vine & Oodville	49	90	0 > 170	Mueller
Wilson & Marshall	47	84	0 > 170	Mueller
18 Marshall	51	72	0 > 170	Mueller
Marshall & Oodville	50	90	0 > 170	Mueller
306 East Pleasant	36	84	2	240 Mueller
Pleasant & Miller	37	82	2	240 Mueller
Pleasant & St. Clair	45	72	2	240 Mueller
Fire Station #2	44	78	2	240 Mueller
442 East Pleasant	43	82	0 > 170	Mueller
Miller & Wilson	34	84	10	530 Mueller
Oodville & Miller	33	84	2	240 Mueller
Reynolds & Oodville	32	88	2	240 Mueller
Pine & Reynolds	30	82	0 > 170	Mueller
112 Pine Street	31	84	0 > 170	Mueller
128 Reynolds	29	82	2	240 Bourbon
Pike & Clifton	38	80	24	913 Mueller
Pike & Miller	36	70	30	1021 Mueller
409 East Pike	158	68	2	240 Mueller
433 East Pike	40	84	4	340 Mueller
Pike & Church	152	92	78	1643 Mueller
Church & Bridge	167	92	80	1665 Mueller
Church (Ken's)	216	Did Not Push		Bourbon
McClonays	217	82	80	1665 Mueller
Thru				Hyd is in Building Needs To Be Moved

EXHIBIT 186

08.04.98 1:00 PM *PARROTT. ELY HURT P16

EXHIBIT

18d

Sheet

South Church Street	218	90	78	1643	Mueller
Clifton Village (Front)	171	72	10	830	Mueller
Bridge & Miller	170	70	8	480	Mueller
Bridge & Webster	169	58	8	450	Mueller
512 East Bridge	166	58	28	647	Mueller
Bridge & Highway	165	46	24	913	Darling
Battle Grove & Highland	183	48	8	480	Mueller
820 Battle Grove	164	50	8	410	Mueller
112 Battle Grove	186	48	2	240	Mueller
Webster & Battle Grove	187	52	0 >170		Mueller
Webster & Old Lair	178	64	0 >170		Mueller
Old Lair (Clifton Village)	176	80	0 >170		Mueller
Old Lair (Clifton Village)	175	82	0 >170		Mueller
Aarbrook Court	177	72	0 >170		Mueller
High School (Auditorium)	213	45	38	1118	Darling
South Side School	208	48	24	913	Mueller
Weight Room	207	48	28	987	Mueller
Middle School	209	50	20	832	TCIW
Middle School	210	54	18	670	TCIW
Middle School	211	50	14	830	TCIW
Middle School	212	Can't Flush			TCIW
High School Tower	275	48	44	1235	US Pipe
Meley Ave	222				
Water Treatment Plant	270	100	42	1213	Mueller
Water Treatment Plant	271	100	64	1705	Darling
Wal Mart	266	100	88	1745	Mueller
Hardees	265	100	98	1745	Mueller
McDonalds	272	100	74	1399	Mueller
Food Lion		100	70	1555	Mueller
Payless	263	100	30	1021	Mueller
Water Works Road	268	100	82	1745	Darling
Water Works Road	268	100	82	1745	Darling
Water Works Road	267	100	88	1745	Darling
Terry Dam	218	Hyd Removed From Service			
Southern States	173	96	12	580	Waterucs
Railroad Ave	174	96	4	340	Mueller
Bridge & Walnut (BP)	136	98	82	1685	Mueller
Walnut (Pool Room)	155	98	42	1273	Mueller
Walnut & Pike	154	98	68	533	Mueller
Walnut & Pike	3	96	34	1088	VOCT
Walnut (Family Fare)	14	96	70	1555	Mueller
Walnut & Pleasant	15	96	82	1685	Mueller
Walnut & Mt	16	96	14	630	Mueller
Odenville & Walnut	17	Can't Flush Wort Shlt Off			Bourbon
Walnut & Penn	18	96	4	340	Mueller
Walnut & Pearl	13	96	4	340	Mueller
KC Provisions	293	98	30	1021	Darling
KC Provisions	292	98	22	874	Darling
Main & Bridge	152	94	82	1685	Mueller
Main & Poplar	151	96	82	1685	Darling
Cynthiana Monument	153	Skipped			
Platters	2	92	15	710	Mueller

EXHIBIT

18d

08.04.98 12:00 PM *PARROTT. ELY HURT P17
 EXHIBIT 18c

Sheet

Main & Pike (East Corner)	1	92	64	1489	Mueller
Main & Pike (West Corner)	104	92	24	913	Mueller
Joe B. Hall Court	105	96	10	530	Mueller
Main & Pleasant	4	81	80	1685	Mueller
City Hall	5		82	1685	Mueller
North Main	9	Could Not Test	Debris Around Hyd.		Darling
Main (Thomas Salvage)	12	98	80	1685	Darling
North Main (Cargill)	10	98	72	1577	Darling
Lincoln Ave.	11	100	0 >170		Bourbon
South Poplar (Hair Store)	150	94	0 >170		Waterous
Court & Pine	107	98	20	832	Mueller
Pike & Poplar	108	98	14	830	Mueller
Poplar & Pleasant	113	96	82	1685	Darling
Little Casser's	114	98	84	1705	Mueller
Pleasant & Court	108	98	20	832	Mueller
North Poplar (Gym Center)	110	96	74	1599	Darling
Poplar & Russ	112	98	64	1489	Mueller
West Pike & Locust	123	96	6	410	Mueller
Pleasant & Locust	122	96	16	670	Mueller
Locust & Pearl	119	100	0 >170		Mueller
WWTP	118	Hyd Is Broken			
WWTP	117	90	0 >170		Greaser
Newsome	127	Couldn't Flush	Area Fenced Off		Darling
Pleasant & Water	124	98	84	1705	Mueller
Main & Mill	6	96	18	710	Mueller
Poplar & Mill	115	100	1	170	Mueller
Locust & Mill	121	98	8	410	Mueller
Water & Mill	125	98	1	170	Mueller
Main & Penn	7	98	18	670	Mueller
Poplar & Penn	109	100	16	670	Mueller
Locust & Penn	120	98	2	240	Mueller
Water & Penn	126	100	0 >170		Mueller
Main & Pearl	8	98	8	480	Mueller
Poplar & Pearl	111	Did Not Flush			Bourbon
North Church	22	96	78	1821	Darling
Harrison Warehouse	146	96	78	1643	Mueller
Harrison Warehouse	148	96	70	1555	Darling
Marshall Supply	144	Could Not Flush			Mueller
LeBus Warehouse	19	60	46	1261	Mueller
LeBus Warehouse	20	60	38	1116	Mueller
Ware Funeral Home	21	68	30	1021	Mueller
27 Water Tower	273 B	56	50	1318	Mueller

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EXHIBIT 18c

EXHIBIT

19(a)

Cynthiana Flushing Record, March 1998

Hydrant	Static	Residual	GPM	GPM@20psi
131	44	40	1,180	3,105
132	48	38	1,150	2,173
133	48	32	1,055	1,474
133A	44	22	874	918
133B	48	22	874	910
134	48	22	874	910
135	48	20	832	832
143	54	28	987	1,141
136	50	26	947	1,068
137	50	22	874	907
290	46	18	710	682
291	44	18	710	680
142	58	26	947	1,045
141	58	26	947	1,045
138	50	24	913	986
139	48	20	832	832
140	50	22	874	907
289	42	16	670	612
145	34	12	580	454
146	38	8	480	364
147	62	10	530	472
129	50	40	1,180	2,136
232	48	26	947	1,079
231	50	46	1,261	3,743
230	58	50	1,316	3,053
229	64	56	1,397	3,507
128	64	48	1,290	2,228
228	74	62	1,467	3,305
227	80	70	1,555	4,092
226	90	80	1,665	4,762
233	90	8	480	441
234	90	8	480	441
248	57	42	1,213	1,975
249	63	34	1,088	1,346
250	64	34	1,088	1,338
251	64	20	832	832
252	64	20	832	832
253	50	20	832	832
254	55	48	1,290	3,076
247	56	22	874	901
246	62	22	874	897
239	68	8	480	424
238	72	2	240	204
237	78	0	>170	#VALUE!
235	84	14	630	600
236	78	18	710	697

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EXHIBIT 19(a)

EXHIBIT 196

Hydrant	Static	Residual	GPM	GPM@20psi
262	90	74	1,599	3,548
261	82	64	1,489	2,904
260	84	54	1,108	1,668
255	84	54	1,370	2,063
241	80	60	1,445	2,615
242	70	60	1,445	3,446
240	62	50	1,316	2,589
243	55	44	1,000	1,868
244	68	32	1,055	1,232
245	79	34	1,038	1,259
259	82	24	913	946
256	72	12	580	537
257	79	8	480	434
258	92	8	480	442
	100	10	530	497
	100	10	530	497
	98	8	480	444
	100	8	480	445
73	62	26	947	1,059
80	46	12	580	502
74	54	10	530	461
75	50	12	580	510
76	62	12	580	528
77	62	12	580	528
78	63	12	580	529
79	63	14	630	587
71	62	8	480	419
72	62			0
70	52	10	530	458
67	80	10	530	470
88	52	8	480	404
69	46	8	480	391
66	45	8	480	388
63	82	8	480	419
64	78	8	480	434
65	78	8	480	434
56	86	50	1,316	1,826
57	82	40	1,180	1,456
58	80	42	1,213	1,552
59	80	48	1,290	1,811
60	62	36	1,118	1,448
61	46	16	670	620
62	44	16	710	653
81	44	28	987	1,229
82	46	12	580	502
83	48	12	580	506
84	58	12	580	523
85	62	16	670	638

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EXHIBIT 196

EXHIBIT

199

Hydrant	Static	Residual	GPM	GPM@20psi
86	60	14	630	571
87	46	12	580	502
88	44	12	580	497
89	30	8	480	314
90	46	10	530	445
162	34	12	580	454
163	32	10	530	382
164	30	10	530	366
				#NUM!
91	34	8	480	344
92	40	6	410	308
93	46	10	530	445
94	46	10	530	445
95	46	10	530	445
96	54	10	53	46
97	56	10	530	464
98	62	10	530	472
99				#NUM!
100	46	8	480	391
101	44	8	480	386
102	34	8	480	344
103	44	8	480	386
273	50	16	670	626
52	90	70	1,555	3,059
64	64	0	>170	#VALUE!
55				#NUM!
53	64	10	530	475
48	52	30	1,021	1,250
42	68	46	1,261	2,350
41	50	38	1,150	1,886
180	50	32	1,055	1,390
167	64	50	1,316	2,442
185	48	38	1,150	2,005
180	54	42	1,213	2,129
	56	18	710	690
190	82	52	1,342	2,913
191	64	12	580	517
192	62	20	832	832
189	82	48	1,290	2,335
188	80	44	1,236	1,629
206	54	42	1,213	2,129
206B	54	38	1,150	1,728
205	62	32	1,055	1,265
214	54	32	1,055	1,335
215	56	46	1,261	2,518
221	64	58	1,421	4,167
220	58	48	1,290	2,906
223	98	88	1,745	5,291

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EXHIBIT 199

EXHIBIT 19d

Hydrant	Static	Residual	GPM	GPM@20psi
279	90	82	1,685	5,436
280	94	84	1,705	5,025
281	98	82	1,685	3,964
224	88	82	1,685	3,964
225				#NUM!
282				#NUM!
283	100	78	1,643	3,299
284	94	78	1,643	3,757
285	94	80	1,665	4,092
286				#NUM!
287	94	82	1,685	4,500
288				#NUM!
181	52	0	>170	#VALUE!
204	62	20	832	832
203	46	24	913	999
201	60	16	670	636
202	44	16	670	616
200	44	14	630	558
198	44	10	530	439
277	40	8	480	372
195	40	12	580	484
199	44	16	670	616
194	48	18	710	684
193	52	20	832	832
182	48	0	>170	#VALUE!
197				#NUM!
196		0	>170	#VALUE!
28	88	10	530	492
27	90	10	530	493
26	90	10	530	493
25	90	6	410	372
24	38	6	410	301
23	64	30	1,021	1,174
35	88	8	480	439
46	80	0	>170	#VALUE!
49	90	0	>170	#VALUE!
47	64	0	>170	#VALUE!
51	72	0	>170	#VALUE!
50	90	0	>170	#VALUE!
36	64	2	240	210
37	82	2	240	209
45	72	2	240	204
44	78	2	240	206
43	62	0	>170	#VALUE!
34	84	10	530	490
33	84	2	240	210
32	88	2	240	211
30	82	0	>170	#VALUE!

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EXHIBIT 19d

EXHIBIT 19E

Hydrant	Static	Residual	GPM	GPM@20psi
31	84	0	>170	#VALUE!
29	82	2	240	209
38	80	24	913	948
39	70	30	1,021	1,152
169	68	2	240	202
40	64	4	340	288
158	92	78	1,643	3,978
157	92	80	1,665	4,381
216				#NUM!
217	92	80	1,665	4,381
				#NUM!
216	90	78	1,643	4,258
171	72	10	530	482
170	70	8	480	427
169	58	8	480	414
166	58	28	947	1,039
165	46	24	913	999
183	46	8	480	391
184	50	6	410	333
188	48	2	240	184
187	52	0	>170	#VALUE!
178	64	0	>170	#VALUE!
176	80	0	>170	#VALUE!
175	82	0	>170	#VALUE!
177	72	0	>170	#VALUE!
213	46	36	1,118	1,973
208	48	24	913	992
207	48	28	987	1,184
209	50	20	832	832
210	54	18	670	631
211	50	14	630	571
212				#NUM!
278	48	44	1,236	3,535
222				#NUM!
270	100	42	1,213	1,443
271	100	64	1,706	2,624
266	100	88	1,745	4,861
265	100	88	1,745	4,861
272	100	74	1,599	2,934
	100	70	1,555	2,641
263	100	30	1,021	1,097
269	100	88	1,745	4,861
268	100	88	1,745	4,861
267	100	88	1,745	4,861
219				#NUM!
173	96	12	580	549
174	96	4	340	307
156	98	82	1,665	3,964

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EXHIBIT 19E

EXHIBIT **19F**

Hydrant	Static	Residual	GPM	GPM@20psi
155	98	42	1,213	1,451
154	96	68	1,533	2,629
3	96	34	1,088	1,214
14	96	70	1,555	2,775
15	96	82	1,685	4,201
16	96	14	630	605
17				#NUM!
18	98	4	340	307
13	98	4	340	307
293	98	30	1,021	1,100
292	98	22	874	886
152	94	82	1,685	4,500
151	96	82	1,685	4,201
153				#NUM!
2	92	18	710	700
1	92	64	1,489	2,480
104	92	24	913	942
105	96	10	530	496
4	91	80	1,665	4,558
5		82	1,685	#NUM!
9				#NUM!
12	96	80	1,665	3,862
10	98	72	1,577	2,854
11	100	0	>170	#VALUE!
150	94	0	>170	#VALUE!
107	98	20	832	832
108	98	14	830	605
113	96	82	1,685	4,201
114	98	84	1,705	4,311
106	98	20	832	832
110	98	74	1,599	3,022
112	98	64	1,489	2,331
123	98	6	410	375
122	96	16	670	652
119	100	0	>170	#VALUE!
118				#NUM!
117	90	0	>170	#VALUE!
127				#NUM!
124	98	84	1,705	4,311
6	98	18	710	700
115	100	1	170	152
121	98	6	410	375
125	98	1	170	151
7	98	16	670	652
109	100	16	670	653
120	98	2	240	216
126	100	0	>170	#VALUE!
8	98	8	480	444

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EXHIBIT **19F**

EXHIBIT 199

Hydrant	Static	Residual	GPM	GPM@20psi
111				#NUM!
22	98	76	1,621	3,211
149	96	78	1,643	3,576
148	86	70	156	333
144				#NUM!
19	80	46	1,261	1,714
20	80	36	1,116	1,319
21	68	30	1,021	1,159
273B	56	50	1,316	3,463

Flows marked > 170 indicate a flow of 170 or less.

Blank cells represent missing data

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EXHIBIT 199

EXHIBIT

20



EXHIBIT

20

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

RECEIVED

FEB 11 2000

In the Matter of:

PUBLIC SERVICE
COMMISSION

PROPOSED ADJUSTMENT OF THE)
WHOLESALE WATER SERVICE RATES OF) ADMINISTRATIVE
THE CITY OF CYNTHIANA, KENTUCKY) CASE NO. 99-300

In accordance with Appendix A to the Public Service Commission's Order of October 1, 1999, as amended, the City of Cynthiana hereby requests the following information from the Harrison County Water Association:

1. Please provide all documents, notes, memoranda or other written evidence relating to any meeting between the Harrison County Water Association ("HCWA") and the City of Cynthiana in which the issue of the rates charged the HCWA was discussed, including without limitation, the meetings described in Mr. Toadvine's Response to Question 11 of his Prefiled Testimony and Mr. Harover's Response to Question 14 of his Prefiled Testimony.

2. Please refer to the Prefiled Testimony of Mr. Harover. Please list the name, docket number and the party retaining his services for:

(a) Each case before the Public Service Commission of Kentucky in which testified;

(b) Each case before the Public Service Commission of Kentucky in which he participated professionally and that is not listed in response to subpart (a).

3. Please refer to Mr. Harover's response to Question 11 of his Prefiled Testimony.

(a) Please provide a detailed description of what Mr. Harover “read in the newspaper” and “rumors” he heard concerning “the City’s need for a rate increase.”

(b) Please provide any documents, notes, memoranda or newspaper clippings relating to the matters described in Mr. Harover’s response to Question 11 of his Prefiled Testimony.

4. Please provide any cost of service or like study, including all drafts, performed on behalf of HCWA with respect to the City of Cynthiana’s cost of providing water to HCWA.

5. Please refer to Question 19 in Mr. Harover’s Prefiled Testimony.

(a) Please explain how the costs for “emergency/special occurrences could be handled outside the base rate structure,” including the legal basis for doing so.

(b) Please explain why a surcharge “would [not] be the way to handle” such costs.

(c) Please provide a detailed explanation of Mr. Harover’s belief as to how the costs should be recovered, including the legal basis for doing so.

6. Please refer to Mr. Harover’s response to Question 20 of his Prefiled Testimony.

(a) Is it Mr. Harover’s contention that the back-up water system was not used and useful at all times relevant to this proceeding?

(b) Please provide a full explanation for Mr. Harover’s response to subpart (a) of this Item.

(c) Given the fact that the costs for the back-up water supply were not included in the original rate structure, is it Mr. Harover's position that HCWA should now be assessed carrying costs for the prior twelve years?

(c) Provide a detailed explanation for Mr. Harover's response to subpart (c) of this Item.

7. Please refer to Mr. Harover's response to Question 21 of his Prefiled Testimony.

(a) Please quantify the effect, if any, on Mr. Miller's calculation of the City of Cynthiana's cost of service to provide water to HCWA of there being eight mastermeters at connection points to HCWA, instead of the seven mastermeters as used by Mr. Miller.

(b) Please provide all workpapers, assumptions and calculations supporting the Response to subpart (a) to this Item.

8. Please refer to Mr. Harover's response to Question 24 of his Prefiled Testimony.

(a) What rate does Mr. Harover contend would be a fair, just and reasonable rate for water provided by the City of Cynthiana to HCWA?

(b) Please provide all workpapers, assumptions, calculations and supporting documentation for the Response to subpart (a) of this Item.

9. Please refer to Mr. Harover's Response to Question 27 in his Prefiled Testimony.

(a) Please provide a detailed analysis and explication of the basis for his statement "[t]here is minimal benefit to HCWA from" [the 16" waterline from the filtration pump to the Bundy Tower.]

(b) Please provide all workpapers, assumptions and calculations or other documentation supporting the Response to subpart (a) of this Item.

(c) Please quantify the effect on the rate calculated by Mr. Miller of Mr. Harover's conclusions regarding the 16" waterline from the filtration pump to the Bundy Tower.

(d) Please provide all workpapers, assumptions and calculations or other documentation supporting the Response to subpart (d) of this Item.

10. Please refer to Mr. Harover's Response to Question 28 in his Prefiled Testimony.

(a) Provide a detailed explanation of the "experience" upon which Mr. Harover bases his conclusions.

(b) Is Mr. Harover aware that Mr. Hensley conducted a three-month study (July, August and September) of Cynthiana's operations before choosing July as the representative month?

(c) If the answer to (b) is "yes," is it Mr. Harover's contention that Mr. Hensley's three-month study would "skew" the allocations in the same manner as would a study of July only? Provide a detailed explanation for this conclusion.

(d) If the answer to (b) is “no,” does the use of the three-month study have any effect on Mr. Harover’s conclusion that Mr. Hensley’s study was “skewed?” Provide a detailed factual explanation for this conclusion.

11. Please refer to Mr. Harover’s Response to Question 29 in his Prefiled Testimony.

(a) What does Mr. Harover contend would be the proper allocation of audit and bond fee expenses?

(b) Please provide a detailed explanation of how the allocation provided in Response to subpart (a) of this Item was calculated, along with all workpapers, assumptions and calculations.

(c) What effect would using the allocation provided in Response to subpart (a) of this Item have on the rate calculated by Mr. Miller?

12. Please refer to Mr. Harover’s Response to Question 31 of his Prefiled Testimony.

(a) Please provide a detailed explanation of the basis for Mr. Harover’s conclusion that “[i]f fair and proper negotiations had taken place, outside counsel most likely would not have been necessary.”

13. Does HCWA agree the City of Cynthiana is entitled to collect from HCWA a fair, just and reasonable rate for wholesale water provided by the city to HCWA without regard to the terms of the contract between HCWA and the city? If the Response to this Item is anything but an unequivocal “yes,” please provide a detailed explanation for the Response.

14. Does HCWA agree the City of Cynthiana is entitled to collect from HCWA a fair, just and reasonable rate for wholesale water provided by the city to HCWA without regard to the city rates to city customers which are not subject to the jurisdiction of the Public Service Commission of Kentucky? If the Response to this Item is anything but an unequivocal "yes," please provide a detailed explanation for the Response.

15. Please refer to Mr. Toadvine's Response to Question 9 of his Prefiled Testimony.

(a) For the years 1994-1999 please provide HCWA's total customers as of December 31st of each year.

(b) For the years 1994-1999 please provide the total water sales (in gallons) by HCWA for each year.

16. Please refer to Mr. Toadvine's Response to Question 11 of his Prefiled Testimony.

(a) Please provide copies of all minutes of the HCWA from the past three years referring to or discussing any issues relating to the water service provided to HCWA by the City of Cynthiana.

(b) Is Mr. Toadvine or any other member of the HCWA aware of any discussions that occurred prior to January of 1999 between any member of the HCWA and the City of Cynthiana regarding Cynthiana's need for a rate increase?

(c) If the answer to (b) is "yes," please provide a brief description of those meetings, including the date of the meeting, the participants, and a summary of the points discussed at each meeting.

17. Please refer to Mr. Toadvine's Response to Question 16 in his Prefiled Testimony.

(a) Please explain in detail the basis for the statement that the proposed rate adjustment will result in the HCWA subsidizing city customers.

(b) Please provide all workpapers, assumptions and calculations that support the statement, including any quantification of the amount of the claimed subsidy.

18. Please refer to the exhibits to HCWA's "Supplement Amending Intervenor Testimony of Tony Harover and Accompanying Exhibits Filed January 28, 2000" (hereinafter referred to as "Supplement".)

(a) What is the purpose of the exhibits?

(b) Is HCWA sponsoring these as accurate calculations of the matters contained in the exhibits? If not, please explain why not, and what HCWA contends would be accurate.

19. Please refer to Exhibit 3a to HCWA's Supplement.

(a) Please explain the basis for Mr. Harover's contention that HCWA's proportional use of the mastermeters should be measured by the ratio of HCWA's use at that

meter to HCWA's total water use, rather than by the ratio of HCWA's use at that meter to the total water use (by both HCWA and Cynthiana) at that particular meter.

(b) Please provide all workpapers, calculations and supporting documentation for Mr. Harover's conclusion.

20. Please refer to Exhibit 3b to HCWA's Supplement.

(a) Please a detailed explanation of Mr. Harover's statement that "[s]ince HCWA is only supplied directly by 10" in one location and 8" or 6" in all other locations, the benefits from mains >10" has been reduced by a factor based on carrying capacity in relation to the 10". There factors are 0.63 and 0.29 for 12" and 16" respectively."

(b) Please provide all workpapers, calculations and supporting documentation for Mr. Harover's Response to subpart (a) of this Item..

21. Please refer to Exhibit 4 of HCWA's Supplement. Explain the line item for depreciation under Item 2, "Customer Accounts."

22. Please refer to Exhibit 4a of HWCA's Supplement.

(a) There is an Excel Spreadsheet note above the allocation factor for Rate Case Expense. Please provide a detailed explanation for the statement in the note that "it [HCWA] should participate in these costs similar to other cost allocations."

(b) There is a calculation of a "wholesale rate" approximately $\frac{3}{4}$ of the way down the sheet. Does HCWA contend that the wholesale rate for water sold by the City of

Cynthiana to HCWA should be \$1.89 per 1000 gallons? If not, please explain in detail, why not, and state what the calculation represents?



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STITES & HARBISON
421 West Main Street
P.O. Box 634
Frankfort, Kentucky 40602-0634
Telephone: 502-223-3477
COUNSEL FOR CITY OF CYNTHIANA

CERTIFICATE OF SERVICE

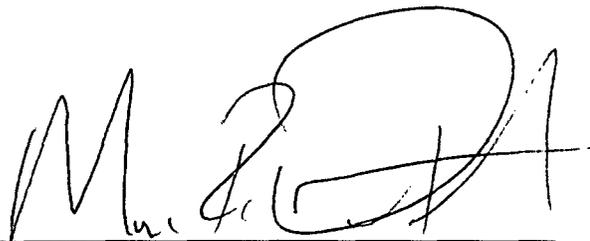
I hereby certify that a copy of the Harrison County Water Association Data Request was served upon the following parties of record, this 11th day of February 2000.

By facsimile and by first-class mail:

Dorothy Jo Mastin, Esq.
9 South Walnut Street
Cynthiana, KY 41031

By first-class mail:

William R. Toadvine, President
Harrison County Water Association, Inc.
P. O. Box 215
Cynthiana, KY 41031



Mark R. Overstreet

RECEIVED

COMMONWEALTH OF KENTUCKY

FEB 08 2000

BEFORE THE PUBLIC SERVICE COMMISSION

PUBLIC SERVICE
COMMISSION

In the Matter of:

PROPOSED ADJUSTMENT OF THE)	
WHOLESALE WATER SERVICE RATES OF)	ADMINISTRATIVE
THE CITY OF CYNTHIANA, KENTUCKY)	CASE NO. 99-300

SUPPLEMENT AMENDING INTERVENOR TESTIMONY
OF TONY HAROVER AND ACCOMPANYING EXHIBITS
FILED JANUARY 28, 2000

Comes now the Harrison County Water Association, Inc., by and through counsel, and files an Amendment to the Intervenor Testimony of Tony Harover correcting the Exhibit list attached to this testimony which was filed on January 28, 2000.

The original Exhibit list was incorrectly labeled and, therefore, this Amendment is necessary.

DOROTHY JO MASTIN
9 South Walnut Street
Cynthiana, Kentucky 41031
Telephone: (606) 235-9000

COUNSEL FOR HARRISON COUNTY WATER
ASSOCIATION, INC.

CERTIFICATE OF SERVICE

I hereby certify that a copy of this Supplements Amending Exhibits in Intervenor Testimony filed January 28, 2000, was served by first class mail, postage prepaid, upon the following parties of record, this the 8th day of February, 2000:

Hon. Gerald Wuetcher
General Counsel
Public Service Commission
730 Schenkel Lane
P. O. Box 615
Frankfort, KY 40602

William R. Toadvine, President
Harrison County Water
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Route 2, Box 277
Cynthiana, KY 41031

Bruce F. Clark
Michele M. Whittington
Stites & Harbison
421 West Main Street
P. O. Box 634
Frankfort, KY 40602-0634

Virgie Florence Wells
Mayor
City of Cynthiana, KY
P. O. Box 67
Cynthiana, KY 41031

Dorothy Jo Masten
Counsel for Harrison County Water
Association, Inc.

HARRISON COUNTY WATER ASSOCIATION, INC.

REQUEST:

Amended Intervenor testimony exhibits in verified form of witness, Tony Harover, Intervenor intends to call at the scheduled hearing in this matter.

RESPONSE:

The direct testimony of the following witness that Harrison County Water Association, Inc. intends to call at the scheduled hearing in this matter is attached hereto:

1. Tony Harover, P.E.

DIRECT TESTIMONY OF TONY HAROVER, PROFESSIONAL ENGINEER

1. Please state your name.

A: Tony Harover.

2. Where are you employed and in what capacity?

A: PEH Engineers; Professional Engineer/Senior Project Manager.

3. What is your educational background?

A: Bachelor of Science in Civil Engineering from the University of Kentucky, 1983.

4. When did you join PEH Engineers?

A: February, 1990.

5. Will you provide a Curriculum Vitae?

A: Yes. See attached as Exhibit 1.

6. Describe generally your job duties.

A: Planning, design and construction observation of water and wastewater facilities. This includes conveyance, pumping and storage systems.

7. Are you a licensed engineer? Please describe where you are licensed and give license numbers?

A: Yes. Licensed Professional Engineer in Kentucky (16732), Indiana (19900185), Tennessee (105646) and Texas (66796).

8. Describe your training and experience with water utilities.

A: Over 16 years of design and construction experience with water and wastewater utilities. I was employed by Martin K. Eby Construction Co., a general contractor, for nearly three years in the Dallas/Fort Worth, Texas, area. Projects associated with include both water and wastewater for the City of Fort Worth and surrounding communities. My career also includes work in the public sector. In the late 1980's, I spent almost four years in working for the City of Fort Worth, Texas, Water Department. I was involved in the planning, design and construction of both water wastewater projects during this period. For the past ten years, I have been employed by PEH Engineers. I have been involved in the planning, design and construction observation of water and wastewater facilities for utilities and municipalities located principally in Kentucky. More specifically, this work includes water distribution (hydraulic modeling, pumping, etc.) and storage facilities, and wastewater collection systems.

9. What was the beginning date of your employment by Harrison County Water Association, Inc?

A: Early in 1990 I began working with the Harrison County Water Association (HCWA).

10. What services do you perform in connection with that employment?

A. I attend meetings, assist in the planning, design and construction observation of water projects as directed by the HCWA Board. This includes hydraulic modeling, evaluating pumping and storage facility needs.

11. When did the City of Cynthiana indicate to the Harrison County Water Association that they needed to increase water rates?

A: My first formal indication was subsequent to the May 28, 1999, meeting between representatives of both parties. Over the past few years, I read in the newspaper and heard rumors of the City's need for a rate increase. I have also attended meetings (see answer to question 14 below) between both parties in which the City mentioned the need to increase rates.

12. When and what was the response of the Harrison County Water Association?

A: Each time that I was present when this subject arose, the HCWA asked the City to provide a cost/study analysis supporting the need.

13. Did the HCWA ever indicate that they would not be cooperative with the City of Cynthiana in determining cost to the City of providing water to HCWA?

A: Not that I am aware of.

14. When and what meetings did you attend between the City of Cynthiana and the HCWA regarding the basis for a rate increase?

A: I attended a meeting on December 8, 1998, with then Mayor Jim Brown and Clyde Hicks (City of Cynthiana), Bob Sturdivant and Joe Lewis (Quest Engineers), Danny Northcutt (HCWA), and myself. This meeting was requested by HCWA to discuss several issues of concern to HCWA. The main objective of this meeting was to follow-up on pressure and flow concerns in the Stokely Lane mastermeter (Harrison Square Shopping Center) area. Refer to letter dated August 20, 1998, attached as Exhibit 2. Other issues discussed consisted of flow concerns combined with high ground elevations (potential low pressures) in the Webber mastermeter (KY 36/Gasser Lane) area, information relative to the proposed industrial park and general questions concerning future plans/projects.

Mayor Brown also brought up the subject of water rates, providing revenue versus usage pie charts for the previous months. However, no actual cost/study was ever presented.

15. Did the City cooperate in providing a cost/study basis for seeking an increase?

A: Not that I am aware of until it was required following HCWA's intervention.

16. Are you familiar with the current rate increase being sought by the City of Cynthiana relative to the Harrison County Water Association, Inc.?

A: Yes. I have been assisting the HCWA evaluate testimony and develop supplemental information requests.

17. Do you attend the monthly meetings of the Harrison County Water Association, Inc. Board of Directors?

A. Yes, with few exceptions.

18. Has there ever been any indication to you that HCWA was aggressively seeking new customers?

A: No. HCWA receives petitions from those seeking potable water service. Periodically, the Board, assisted by the Manager, review these requests to evaluate the feasibility of applying for federal assistance for extension of service. It is not unusual for those in unserved areas to attend Board Meetings

19. Would it be possible to do a surcharge on Harrison County Water Association, Inc. bills to cover the cost to the City of the drought of 1999?

A: Yes. I believe costs for emergency/special occurrences could be handled outside the base rate structure. However, I am not sure a surcharge would be the way to handle it.

20. In the testimony of Mayor Wells answering Question 9 on page 2, the Mayor indicates that the back up water supply has been in place since 1987, however, her answer indicates that it was never used until August 1999, can you explain why the HCWA is just now being assessed a cost for this back up supply?
- A. No.
21. In Carlos Miller's Testimony of November 15, 1999, (Item 1c, Question 14, Sheet 4 of 8), he testifies that HCWA has 7 mastermeters with connection points around the city, and that HCWA utilization of the City's distribution system was generally uniform. Do you dispute that testimony?
- A. Yes, HCWA has eight (8) mastermeters at connection points to the City of Cynthiana. See Exhibit 3 for location of mastermeters. Two (2) locations (Millersburg & White Oak) account for less than one percent on average of the purchases from the City, another location (Old Lair) accounts for less than two percent. Based on data from HCWA for the past 2 years, approximately 75 percent of water purchases come from three (3) locations (Republican, Stokely and Webber). See attached spread sheet (master meter readings summarizing the mastermeter readings taken by HCWA. Exhibit 3a)
22. Do you agree with Carlos Miller's testimony in Item 12a, Sheet 1 of 2, regarding lines jointly used with HCWA?
- A. No. I do not agree with quantities of lines jointly used by Cynthiana and HCWA as outlined in Item 12, Sheet 1 of 2. See Exhibit 3b for identified areas. See attached spreadsheet (pipe sizes and lengths in noncontributing areas) summarizing these areas with quantities and accompanying basis substantiating these findings, Exhibits 3a, 3b, 3c, 3d.

23. In Item 12c, Sheet 2 of 2, in response to Question C of Item 12, Sheet 1 of 2, Carlos Miller's testimony, he responds to the question, "Besides Harrison County, what other customers, if any, does Cynthiana serve from the water mains that it uses to deliver water to Harrison County?" Response: "All of Cynthiana's customers are served via the mains that deliver water to Harrison County." Do you agree with that testimony?
- A. HCWA does not agree that all of Cynthiana's customers are served via the mains that deliver water to HCWA. See previous testimony on lines jointly used. See Exhibit 3 for identified areas. See attached spreadsheet (pipe sizes and lengths in contributing areas) summarizing these areas with quantities and accompanying basis substantiating findings. See Exhibits 3a, 3b, 3c, 3d.
24. Mr. Miller testifies in Item 18, Sheet 1 of 1, regarding Cynthiana's proposed rate for water service to Harrison County, do you agree with that testimony?
- A. HCWA does not agree with the wholesale rate (\$2.20 per 1,000 gallons) proposed at point. The City has asked for \$2.11 per gallon, then \$2.15 per gallon, and finally \$2.20 per gallon. See attached spreadsheets (Cynthiana water rates) as Exhibit 4, 4a, 4b which are duplicates of that contained in Item 23).
25. Do you question Jerry Hensley's testimony, Item B, questions 8 and 9, Sheet 2 of 5), regarding the allocation of public works and other departments based on timesheets for four week period beginning June 19, 1999?
- A. Yes. Allocation of public works and other departments is questioned because there is no record or basis for some employees coding of time. It has been noted that several clerical staff are involved in administrative duties relative to other areas of City business such as tax collection, refuse

collection bills, occupational licenses and other fees. Further, at Item 6, Sheet 2 of 6, timesheets for the two week period included are suspect for the following reasons:

- a) All sewer time is charged on Monday (6/19/99);
 - b) Water time charged on Tuesday (6/20/99), Wednesday, (6/21/99), Monday (6/26/99) and Tuesday (6/27/99); for the two week period included in Jerry Hensley's testimony as Exhibit 1.
26. Do you agree with Carlos Miller's response in his testimony of December 13, 1999 (Item 1, Sheet 1 of 1) wherein he includes the pump, pumping costs and cost of drought in rate calculation?
- A. No, I do not agree. I would prefer these costs be addressed outside of the established rate structure.
27. Do you agree with Carlos Miller/Joe Lewis's Response to HCWA question regarding the purpose for building the 16" water line from the filtration pump to the Bundy Tower?
- A. No. I do not agree. There is minimal benefit to HCWA from main and/or new standpipe. Data provided thus far has been inadequate to approve or disapprove the benefit to HCWA. Information provided has not been detailed enough to substantiate the benefit. Also design reports for this project have never been provided.
28. Does HCWA agree with the City's selection of July of 1998 as representing a normal month?
- A. No. It has been my experience to avoid just using summer and winter months to make annual projections. Utilization of July most probably skews Mr. Hensley's allocation of public works and other departments as described above.

29. In Jerry Hensley's/Charlene McIlvain's response to the PSC on December 13, 1999, Item 12c, Sheet 2 of 139, do you agree with the allocation of the audit expenses and bond fee expenses?
- A. No. I do not agree because each of these expenses should be properly allocated. In Carlos Miller's Response to PSC dated December 13, 1999, Item 17, Sheet 3 of 3, he indicates approximately 20% of the 1992 Bonds were allocated to sewer.
30. In Carlos Miller/Jerry Hensley/Joe Lewis Response to HCWA on December 13, 1999, Item 20b, Sheet 2 of 2, a 10 year depreciation period is used on a pump, is this acceptable?
- A. A ten year depreciation period on a pump and motor is acceptable but all other remaining costs should be based on service life (20 years). Actual costs, in lieu of estimated costs, should be utilized.
31. Is it your belief that the cost of outside counsel should be excluded from this particular rate case?
- A. Yes, based on the City's failure to negotiate and provide the necessary information (cost of service study) as part of a proper negotiation, the cost of outside counsel should be excluded. If fair and proper negotiations had taken place, outside counsel most likely would not have been necessary.

Anthony S. Harover, P.E.

Education

B.S. Civil Engineering - University of Kentucky, Lexington, Kentucky 1983

Registration

Professional Engineer in Kentucky, Texas, Indiana, and Tennessee

Field of Expertise

Hydraulics: Water Distribution Planning, Design, and Construction; Wastewater Collection Planning, Design, and Construction; Computer Modeling; Contract Administration and Project Management

Positions Held

PEH Engineers	1990 - Present	Project Engineer/Manager
Fort Worth Water Department	1986 - 1990	Design Engineer/Chief
Martin K. Eby Construction Company, Inc.	1983 - 1986	Field/Project Engineer

Professional Experience

- **Water Distribution** experience includes the planning, design, and construction of numerous projects for public and private water systems. Computer hydraulic analysis for the Virginia Air National Guard, Willamette Industries, and various utility districts. Provided client assistance on securing state and federal project financing from programs such as Rural Economic and Community Development (formerly Farmers Home Administration), Housing and Urban Development, the Appalachian Regional Commission, and the Kentucky Infrastructure Authority.
- **Wastewater Collection** planning, design and construction experience includes projects for the City of Bardstown, and the Louisville and Jefferson County Metropolitan Sewer District (MSD), and temporary assignments within the Design-Construction Department, as well as other clients.
- **Previous employment** offered experience supervising in-house design and mapping sections for various water and wastewater projects, and with utility relocations, wastewater treatment plant modifications, and pump station/intake structure projects.

Professional Affiliations

- American Society of Civil Engineers
- American Water Works Association
- Consulting Engineers Council of Kentucky
- Kentucky Society of Professional Engineers
- Kentucky Rural Water Association
- National Society of Professional Engineers
- National Rural Water Association

EXHIBIT

2

Subsidiary of Strand Associates, Inc.

August 20, 1998

Mr. William Toadvine, President
Harrison County Water Association
Route 2, Box 77
Cynthiana, Kentucky 41031

**Re: Harrison Square Pressure and Flow Concerns
Hydrant Flow Testing**

Dear Mr. Toadvine:

As I discussed with the Board of Directors at last night's board meeting, there appears to be a pressure and flow problem in the Harrison Square portion of the system. This issue arose this Spring after the US 62 Pump Station (near Dairy Queen) was upgraded to handle the growth in that part of the system. In analyzing the upgrade, it was discovered that the flow characteristics on the suction (Cynthiana) side of the pump station had diminished considerably from its April 1993 start-up date.

According to the pump station start-up files from 1993, the static suction pressure was 92 psi. While running = 200 gallons per minute (gpm) was pumped at 115 feet of total dynamic head (TDH). The suction pressure during this time was noted as 57 psi. Subsequent to replacing the impellers, = 225 gpm was pumped at 175 feet TDH with the suction pressure dropping from 90psi to 34 psi. This much pressure drop on the suction side of the pump station was not anticipated and has led to further investigation.

Attached is a summary of the hydrant tests taken on July 23, 1998 along with a map approximating the test location. These tests were taken on both the HCWA and Cynthiana systems in an effort to identify the limits and magnitude of the problem. Based on these results, it appears that some sort of flow restriction is occurring within the Cynthiana system. The area of concern is most likely in the vicinity of the Cherokee Loop since the flows are good (>2,000 gpm @ 20 psi residual) at Cherokee and Riggs. The flow restrictions may result from closed or partially closed valves or pipe that has an internal buildup therefore reducing the internal pipe diameter.

This situation results in poor flow conditions in both this area of the HCWA and Cynthiana systems. These conclusions are substantiated by Cynthiana's March 1998 Hydrant Flush Records. These poor flow conditions should be of concern to both entities especially if a high volume of water is needed in this area. The HCWA should attempt to resolve this matter through a cooperative effort with the City of Cynthiana.

Waterfront Plaza, Suite 710 • 325 West Main Street • Louisville, KY 40202 • (502) 583-7020 • FAX: (502) 583-7026

620 Euclid Avenue • P.O. Box 22738 • Lexington, KY 40522 • (606) 266-2144 • FAX: (606) 268-1502

EXHIBIT 2

EXHIBIT 2

HCWA Harrison Square Pressure and Flow Concerns
August 20, 1998
Page 2

Should you have any questions regarding this information, please do not hesitate to contact me.

Sincerely,

Tony Harover
Tony Harover, PE
Senior Project Manager

cc: Danny Northcutt, Manager, HCWA
Dorothy Jo Mastin, Attorney

K:\144\WRD\hydrant flow tests.wpd

EXHIBIT 2

HCWA/Cynthiana Hydrant Flow Summary

Tests 7/23/96

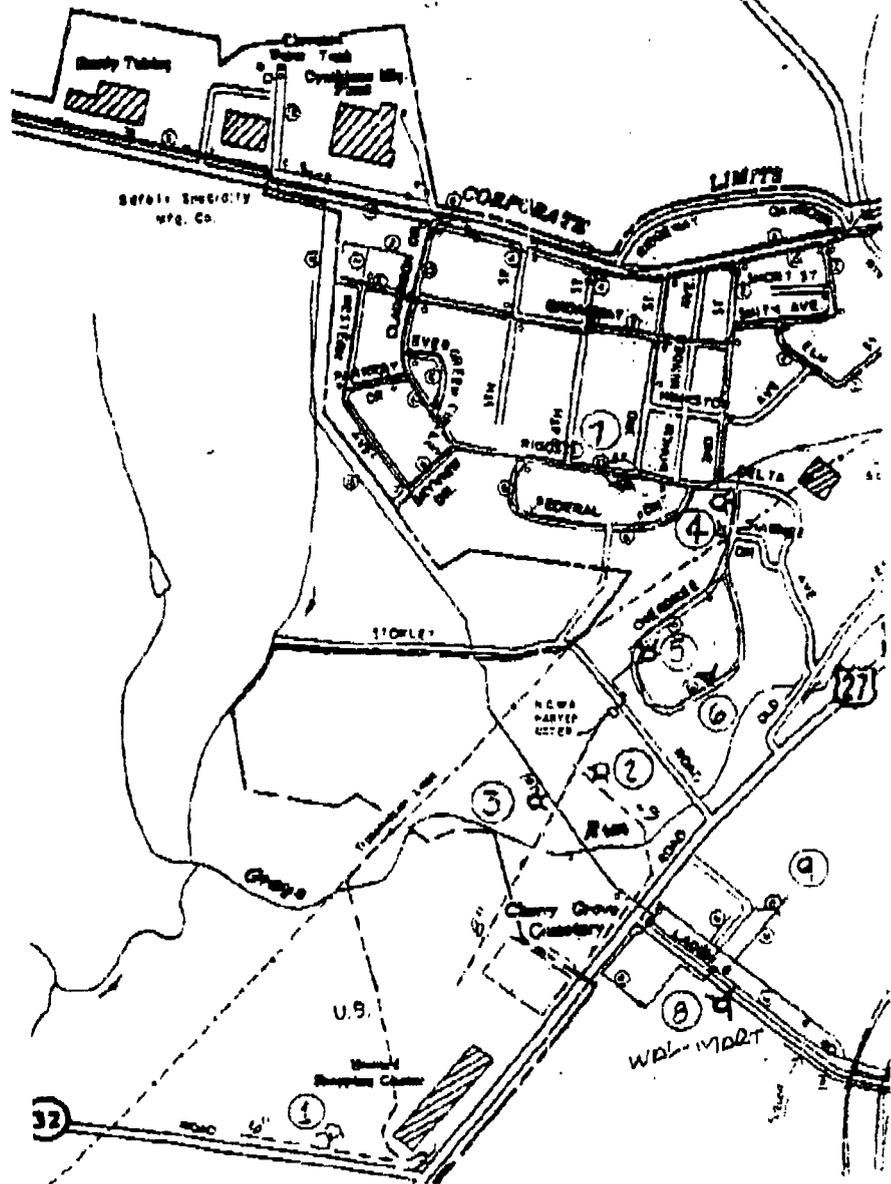
EXHIBIT

Test	Location	Grd Elev (ft)	Static (psi)	HGL (ft)	Flow (gpm)	Residual (psi)	Flow @ 20 psi (gpm)	Notes
1	KY 32 (Davis) - Tussey Furniture	730.0	89.0	935.4	330	4.0	295	6" HCWA main
2	US 62/27 - Payless	710.0	98.0	936.2	480	7.0	442	6" HCWA main
3	US 62/27 - Payless	710.0	98.0	936.2	1,055	32.0	1,155	16" Cynthiana main (No. 263?)
4	Cherokee & Riggs	740.0	94.0	937.8	1,445	60.0	2,454	10" Cynthiana main (No. 255)
5	Cherokee Loop	725.0	92.0	937.3	429	6.0	390	6" Cynthiana main (No. 255?)
6	Cherokee Loop	715.0	98.0	936.5	412	5.0	374	6" Cynthiana main (No. 255?)
7	Riggs & 3rd	775.0	70.0	936.5	1,445	60.0	3,446	10" Cynthiana main (No. 242?)
8	Ladish (Wal-Mart)	715.0	98.0	936.5	1,725	86.0	5,157	16" Cynthiana main (No. 265?)
9	Ladish (SuperAmerica)	710.0	98.0	936.2	1,725	86.0	4,740	6" Cynthiana main (No. 265?)

Shaded areas are estimated based on topographic maps and static pressure readings.

08.04.98 12:10 PM *PARROTT, ELY & HURT P01

us 27 e flows.wb3



EXHIBIT

3

CYNTHIANA STREET INDEX

101. 102. 103. 104. 105. 106. 107. 108. 109. 110. 111. 112. 113. 114. 115. 116. 117. 118. 119. 120. 121. 122. 123. 124. 125. 126. 127. 128. 129. 130. 131. 132. 133. 134. 135. 136. 137. 138. 139. 140. 141. 142. 143. 144. 145. 146. 147. 148. 149. 150. 151. 152. 153. 154. 155. 156. 157. 158. 159. 160. 161. 162. 163. 164. 165. 166. 167. 168. 169. 170. 171. 172. 173. 174. 175. 176. 177. 178. 179. 180. 181. 182. 183. 184. 185. 186. 187. 188. 189. 190. 191. 192. 193. 194. 195. 196. 197. 198. 199. 200. 201. 202. 203. 204. 205. 206. 207. 208. 209. 210. 211. 212. 213. 214. 215. 216. 217. 218. 219. 220. 221. 222. 223. 224. 225. 226. 227. 228. 229. 230. 231. 232. 233. 234. 235. 236. 237. 238. 239. 240. 241. 242. 243. 244. 245. 246. 247. 248. 249. 250. 251. 252. 253. 254. 255. 256. 257. 258. 259. 260. 261. 262. 263. 264. 265. 266. 267. 268. 269. 270. 271. 272. 273. 274. 275. 276. 277. 278. 279. 280. 281. 282. 283. 284. 285. 286. 287. 288. 289. 290. 291. 292. 293. 294. 295. 296. 297. 298. 299. 300. 301. 302. 303. 304. 305. 306. 307. 308. 309. 310. 311. 312. 313. 314. 315. 316. 317. 318. 319. 320. 321. 322. 323. 324. 325. 326. 327. 328. 329. 330. 331. 332. 333. 334. 335. 336. 337. 338. 339. 340. 341. 342. 343. 344. 345. 346. 347. 348. 349. 350. 351. 352. 353. 354. 355. 356. 357. 358. 359. 360. 361. 362. 363. 364. 365. 366. 367. 368. 369. 370. 371. 372. 373. 374. 375. 376. 377. 378. 379. 380. 381. 382. 383. 384. 385. 386. 387. 388. 389. 390. 391. 392. 393. 394. 395. 396. 397. 398. 399. 400. 401. 402. 403. 404. 405. 406. 407. 408. 409. 410. 411. 412. 413. 414. 415. 416. 417. 418. 419. 420. 421. 422. 423. 424. 425. 426. 427. 428. 429. 430. 431. 432. 433. 434. 435. 436. 437. 438. 439. 440. 441. 442. 443. 444. 445. 446. 447. 448. 449. 450. 451. 452. 453. 454. 455. 456. 457. 458. 459. 460. 461. 462. 463. 464. 465. 466. 467. 468. 469. 470. 471. 472. 473. 474. 475. 476. 477. 478. 479. 480. 481. 482. 483. 484. 485. 486. 487. 488. 489. 490. 491. 492. 493. 494. 495. 496. 497. 498. 499. 500. 501. 502. 503. 504. 505. 506. 507. 508. 509. 510. 511. 512. 513. 514. 515. 516. 517. 518. 519. 520. 521. 522. 523. 524. 525. 526. 527. 528. 529. 530. 531. 532. 533. 534. 535. 536. 537. 538. 539. 540. 541. 542. 543. 544. 545. 546. 547. 548. 549. 550. 551. 552. 553. 554. 555. 556. 557. 558. 559. 560. 561. 562. 563. 564. 565. 566. 567. 568. 569. 570. 571. 572. 573. 574. 575. 576. 577. 578. 579. 580. 581. 582. 583. 584. 585. 586. 587. 588. 589. 590. 591. 592. 593. 594. 595. 596. 597. 598. 599. 600. 601. 602. 603. 604. 605. 606. 607. 608. 609. 610. 611. 612. 613. 614. 615. 616. 617. 618. 619. 620. 621. 622. 623. 624. 625. 626. 627. 628. 629. 630. 631. 632. 633. 634. 635. 636. 637. 638. 639. 640. 641. 642. 643. 644. 645. 646. 647. 648. 649. 650. 651. 652. 653. 654. 655. 656. 657. 658. 659. 660. 661. 662. 663. 664. 665. 666. 667. 668. 669. 670. 671. 672. 673. 674. 675. 676. 677. 678. 679. 680. 681. 682. 683. 684. 685. 686. 687. 688. 689. 690. 691. 692. 693. 694. 695. 696. 697. 698. 699. 700. 701. 702. 703. 704. 705. 706. 707. 708. 709. 710. 711. 712. 713. 714. 715. 716. 717. 718. 719. 720. 721. 722. 723. 724. 725. 726. 727. 728. 729. 730. 731. 732. 733. 734. 735. 736. 737. 738. 739. 740. 741. 742. 743. 744. 745. 746. 747. 748. 749. 750. 751. 752. 753. 754. 755. 756. 757. 758. 759. 760. 761. 762. 763. 764. 765. 766. 767. 768. 769. 770. 771. 772. 773. 774. 775. 776. 777. 778. 779. 780. 781. 782. 783. 784. 785. 786. 787. 788. 789. 790. 791. 792. 793. 794. 795. 796. 797. 798. 799. 800. 801. 802. 803. 804. 805. 806. 807. 808. 809. 810. 811. 812. 813. 814. 815. 816. 817. 818. 819. 820. 821. 822. 823. 824. 825. 826. 827. 828. 829. 830. 831. 832. 833. 834. 835. 836. 837. 838. 839. 840. 841. 842. 843. 844. 845. 846. 847. 848. 849. 850. 851. 852. 853. 854. 855. 856. 857. 858. 859. 860. 861. 862. 863. 864. 865. 866. 867. 868. 869. 870. 871. 872. 873. 874. 875. 876. 877. 878. 879. 880. 881. 882. 883. 884. 885. 886. 887. 888. 889. 890. 891. 892. 893. 894. 895. 896. 897. 898. 899. 900. 901. 902. 903. 904. 905. 906. 907. 908. 909. 910. 911. 912. 913. 914. 915. 916. 917. 918. 919. 920. 921. 922. 923. 924. 925. 926. 927. 928. 929. 930. 931. 932. 933. 934. 935. 936. 937. 938. 939. 940. 941. 942. 943. 944. 945. 946. 947. 948. 949. 950. 951. 952. 953. 954. 955. 956. 957. 958. 959. 960. 961. 962. 963. 964. 965. 966. 967. 968. 969. 970. 971. 972. 973. 974. 975. 976. 977. 978. 979. 980. 981. 982. 983. 984. 985. 986. 987. 988. 989. 990. 991. 992. 993. 994. 995. 996. 997. 998. 999. 1000.



EXHIBIT

3

| | | <u>Average</u> | <u>Total</u> | <u>% of Total</u> |
|-----|--------------------|----------------|--------------|-------------------|
| 1 a | Eastside | 2,196,767 | 26,361,200 | 9.22% |
| b | | 15,816 | 189,790 | 0.07% |
| 2 a | Webber | 168 | 2,020 | 0.00% |
| b | | 5,087,392 | 61,048,700 | 21.34% |
| 3 | Stokley Lane | 7,200,492 | 86,405,900 | 30.21% |
| 4 | North
Cynthiana | 3,016,100 | 36,193,200 | 12.65% |
| 5 | Millersburg | 39,867 | 478,400 | 0.17% |
| 6 a | White Oak | 26,065 | 312,780 | 0.11% |
| b | | 17 | 200 | 0.00% |
| 7 | Old Lair | 300,167 | 3,602,000 | 1.26% |
| 8 | Republican | 5,953,650 | 71,443,800 | 24.98% |

23,836,499 286,037,990

| | | <u>Average</u> | <u>Total</u> | <u>% of Total</u> |
|-----|--------------------|----------------|--------------|-------------------|
| 1 a | Eastside | 2,167,855 | 23,846,400 | 8.35% |
| b | | 33,699 | 370,690 | 0.13% |
| 2 a | Webber | 405 | 4,460 | 0.00% |
| b | | 5,348,518 | 58,833,700 | 20.60% |
| 3 | Stokley Lane | 7,585,645 | 83,442,100 | 29.21% |
| 4 | North
Cynthiana | 3,189,636 | 35,086,000 | 12.28% |
| 5 | Millersburg | 47,964 | 527,600 | 0.18% |
| 6 a | White Oak | 28,206 | 310,270 | 0.11% |
| b | | 9 | 100 | 0.00% |
| 7 | Old Lair | 364,091 | 4,005,000 | 1.40% |
| 8 | Republican | 7,202,218 | 79,224,400 | 27.73% |

25,968,247 285,650,720

INCH-MILE DATA

| <u>SIZE
(INCHES)</u> | <u>LENGTH
(MILES)</u> | <u>TOTAL
INCH-MILES</u> | <u>HCWA
JOINTLY USED
INCH-MILES</u> |
|--------------------------|---------------------------|-----------------------------|---|
| 1 | 0.72 | 0.72 | 0.00 |
| 2 | 1.95 ⁽¹⁾ | 3.90 | 0.00 |
| 3 | | 0.00 | 0.00 |
| 4 | 7.86 ⁽²⁾ | 31.44 | 0.00 |
| 6 | 7.69 | 46.14 | 29.69 ⁽³⁾ |
| 8 | 4.77 | 38.16 | 17.25 ⁽⁴⁾ |
| 10 | 5.63 | 56.30 | 53.72 ⁽⁵⁾ |
| 12 | 1.52 | 18.24 | 2.67 ⁽⁶⁾ |
| 16 | <u>2.42</u> | <u>38.72</u> | <u>11.23</u> ⁽⁷⁾ |
| | 32.56 | 233.62 | 114.56 |

HCWA Inch-Mile Ratio = $\frac{114.56}{233.62} = 0.4904$

Notes on revisions to Inch-Mile Data per pipe sizes and lengths in noncontributing areas spreadsheet

- (1) Quantity not included in City's cost-of-service study
- (2) Quantity increased by 22,400' from that included in City's cost-of-service study
- (3) Quantity reduced by 14,480' from that included in City's cost-of-service study
- (4) Quantity reduced by 13,800' from that included in City's cost-of-service study
- (5) Quantity reduced by 1,360' from that included in City's cost-of-service study
- (6) Quantity reduced by 6,160' from that included in City's cost-of-service study and by multiplying by 0.63 carrying capacity factor.
- (7) Quantity reduced from that included in City's cost-of-service study by multiplying by 0.29 carrying capacity factor.

Use of this ratio is somewhat flawed since system deficiencies such as those evidenced by fire hydrant flow tests and increased headlosses to HCWA during peak flow conditions are not reflected. Since HCWA is only supplied directly by 10" in one location and 8" or 6" in all other locations, the benefit from mains >10" has been reduced by a factor based on carrying capacity in relation to the 10". These factors are 0.63 and 0.29 for 12" and 16" respectively.

EXHIBIT 3c

Pipe sizes and lengths in Noncontributing areas

For the entire system:
 2" 10,300
 4" 41,500

| | Pipe Size | | | | | | Location |
|---|-----------|--------|--------|--------|---------|-----|-------------------------------|
| | 2" | 4" | 6" | 8" | 10" | 12" | |
| Subdivision of dead end mains | | | 3,280' | | | | Raintree Drive Subdivision |
| Dead end mains | | 400' | 720' | | | | North Locust |
| Dead end mains | | 440' | 400' | | 1,360' | | North Main & Lincoln |
| Dead end mains | | | 800' | 1,200' | | | Northeast Warehouse s |
| Subdivision with poor fire flows, connected by 6", 4", and 2" | | 2,960' | 920' | 6,560' | | | Grandview Subdivision |
| Subdivision of dead end mains
Add in 8" main in KY 32/36 due to low demand | | | 2,080' | 720' | 10,240' | | East Side Subdivision s |
| Subdivision of dead end mains
Verify line sizes | | 4,560' | 1,960' | | | | Robynwood Subdivision |
| Dead end mains | | | | 120' | 6,160' | | J&M Company |
| Dead end mains | | | 2,000' | 2,240' | | | Ladish/ Cherry Grove Cemetary |
| | | | | | | | Total |
| | | | | | | | 7,520' |
| | | | | | | | 5,800' |
| | | | | | | | 14,480' |
| | | | | | | | 13,800' |
| | | | | | | | 1,360' |
| | | | | | | | 6,160' |

EXHIBIT 3c

ALLOCATION FACTORS

$$\text{Cynthiana Water Production Multiplier} = \frac{1}{1 - 0.1331} = 1.1536$$

Harrison County W.A. Allocation Factors

| | | | |
|---|----------|--------|----------|
| HCWA Inch-Mile Ratio (Exhibit 2 HCWA version) = | 0.4904 | | |
| HCWA Share of Lines Loss = | 0.4904 x | 0.1176 | = 0.0577 |
| Joint Share of Line Loss plus Plant Use = | 0.0577 + | 0.0155 | = 0.0732 |

$$\text{Water Production Multiplier} = \frac{1}{1 - 0.0732} = 1.0790$$

$$\text{Water Production Allocation Factor} = \frac{1.0790 \times 295,300.1^{(1)}}{1.1536 \times 622,694.4^{(1)}} = 0.4436$$

$$\text{Transmission Factor} = \frac{295,300.1}{622,694.4} \times 0.4904 = 0.2325$$

$$\text{Usage Factor}^{(2)} = \frac{295,300.1}{622,694.4} = 0.4742$$

⁽¹⁾ Water Sales, See Exhibit 3

⁽²⁾ Ratio of Water Sales

SPECIFIC EXPENSES AND TEST YEAR ADJUSTMENTS

1. Meters & Services

| | |
|--|------------------------|
| \$17.95 per hour x 41.5 hours = | \$745 ⁽¹⁾ |
| Annual Depreciation: | |
| Meter Testing Equipment: \$10,000 / 10 yrs = | \$1,000 ⁽¹⁾ |
| Meter & Services: Per City's Depreciation Schedule = | 245 |
| | \$1,245 |

2. Customer Accounts

| | |
|----------------------------------|---------|
| \$96,122 (Salaries & Benefits) | |
| 16,486 (Supplies & Misc) | |
| \$112,608 ⁽¹⁾ | |
| Depreciation: \$25,685 / 5 yrs = | \$5,137 |

3. Cost of Drought

| | |
|--|----------|
| \$78,848 ⁽¹⁾ | |
| Amortize over three years: Annual Cost = | \$26,283 |

4. Rate Case Cost

| | | |
|--|----------|---------|
| Stites & Harbison | \$15,000 | |
| Kenvirons, Inc. | 8,000 | |
| Estimated Cost | \$8,000 | |
| Amortize over three years: Annual Cost = | | \$2,667 |

HCWA does not agree that it should participate in these costs since legitimate negotiations would not have involved these services

5. Installation of Back-up Raw Water Pump

| | |
|---|---------|
| \$143,185 ⁽²⁾ | |
| Annual Depreciation (pump & motor): \$55,244/10 yrs = | \$5,524 |
| Annual Depreciation (balance): \$87,941/20 yrs = | \$4,397 |
| | \$9,921 |

⁽¹⁾ Costs provided by City
⁽²⁾ Cost based on Engineer's estimate

**ALLOCATION OF PRODUCTION AND TRANSMISSION COSTS
AND
DETERMINATION OF WHOLESALE RATE**

| | <u>TOTAL
COSTS</u> | <u>ALLOCATION
FACTOR</u> | <u>COST ALLOCATED
TO HCWA</u> |
|--|-------------------------|------------------------------|-----------------------------------|
| I. Test Period Costs | | | |
| 1.1 <u>Operating & Maintenance</u> | | | |
| Water Production | \$ 327,402 | 0.4436 ⁽⁵⁾ | \$ 145,223 |
| Transmission & Distribution | 100,116 | 0.2325 ⁽⁵⁾ | 23,282 |
| 1.2 <u>Debt Service</u> | | | |
| Water Production | 439,177 | 0.4436 | 194,802 |
| Transmission & Distribution | 69,730 | 0.2325 | 16,216 |
| 1.3 <u>Debt Service Coverage</u> | | | |
| Water Production | 109,794 | 0.4436 | 48,700 |
| Transmission & Distribution | 17,432 | 0.2325 | 4,054 |
| 1.4 <u>Depreciation</u> | | | |
| Water Production | 201,831 | 0.4436 | 89,524 |
| Transmission & Distribution | 77,180 | 0.2325 | 17,948 |
| TOTAL TEST PERIOD COSTS | \$ 1,342,663 | | \$ 539,749 |
| II. Test Period Adjustments | | | |
| 2.1 Cost of 1998 Drought
Water Production | \$ 26,283 | 0.4436 | 11,658 |
| <div style="border: 1px solid black; padding: 2px; display: inline-block;"> HCWA believes that it should participate in these costs similar to other cost allocations </div> | | | |
| 2.2 <u>Rate Case Expense</u> | \$2,667 ⁽²⁾ | 0.4436 ⁽²⁾ | \$ 1,183 |
| 2.3 <u>Raw Water Pump</u>
Depreciation | \$ 9,921 ⁽³⁾ | 0.4436 | \$ 4,401 |
| Total Adjustments | \$ 38,871 | | \$ 17,242 |
| Total Cost | \$ 1,381,534 | | \$ 556,990 |

$$\text{Wholesale Rate} = \frac{556,990}{295,300.1} = 1.89 \text{ per 1000 Gallons}$$

(1) Exhibit 5, Item 3
 (2) ~~Exhibit 5, Item 4. Allocation factor equals 1.0 because rate case is specifically for the purpose of determining HCWA rate~~
 (3) Exhibit 5, Item 5.
 (4) Exhibit 5, Item 6. Allocation factor is usage factor calculated in Exhibit 4.
 (5) Water Production Factor, See Exhibit 4
 (6) Transmission Factor, See Exhibit 4

SUMMARY OF TEST PERIOD COSTS

| | WATER PRODUCTION | TRANSMISSION & DISTRIBUTION | METERS & SERVICES | CUSTOMER ACCOUNTS | TOTALS |
|---|--------------------------|--|------------------------------|--------------------------|---------------------|
| Operation & Maintenance | 327,402 ^{(3),A} | 100,116 ^{(3),A} | 745 ⁽¹⁾ | 112,608 ⁽²⁾ | \$ 540,871 |
| Depreciation | 201,831 ^{(3),A} | 77,180 ^{(3),A} | 1,245 ⁽¹⁾ | 5,137 ⁽²⁾ | \$ 285,393 |
| Debt Service | 439,177 ⁽⁴⁾ | 69,730 ⁽⁴⁾ | | | \$ 508,907 |
| Debt Service Coverage @ 25% | 109,794 | 17,432 | | | \$ 127,227 |
| | 1,078,204 | 264,458 | 1,990 | 117,745 | \$ 1,462,398 |
| Less: Debt Service | | | | | 508,907 |
| Debt Service Coverage | | | | | <u>127,227</u> |
| Total Water Operating Expenses per Audit | | | | | \$ 858,336 |

⁽¹⁾ See Exhibit 5, Item 1

⁽²⁾ See Exhibit 5, Item 2

⁽³⁾ Costs for 1999 based on document provided by City and contained in Appendix A

⁽⁴⁾ Per breakdown of 1992 Bond Issue provided by City:

^A See Cost Allocation sheet

| | % | Proportioned Debt Service | | | 3-year Average |
|--------------------------------------|----------------|----------------------------------|------------------|------------------|-----------------------|
| | | 1999 | 2000 | 2001 | |
| Water Production: | 68.84% | \$446,289 | \$437,133 | \$434,109 | \$439,177 |
| Trans. & Dist.: | 10.93% | 70,859 | 69,405 | 68,925 | 69,730 |
| Sewer: | 20.23% | 131,151 | 128,460 | 127,572 | 129,061 |
| Total Debt Service per Audit: | 100.00% | \$648,299 | \$634,999 | \$630,806 | \$637,968 |

1978 Bond Issue

| Purpose | Allocation | Amount | % of Original Issue |
|------------------------|--------------------|--------------------|----------------------------|
| Refund 1956 Issue | Sewer | \$115,000 | 4.08% |
| Refund 1964 Issue | Water Production | 820,000 | 29.08% |
| Refund 1969 Issue | Water Distribution | 40,000 | 1.42% |
| Refund 1971 Issue | Water Distribution | 450,000 | 15.95% |
| New Sewer Construction | Sewer | 1,395,000 | 49.47% |
| Total | | \$2,820,000 | 100.00% |

1987 Bond Issue

| Purpose | Allocation | Amount | % of Original Issue |
|-------------------------------|--------------------|--------------------|----------------------------|
| Water Intake to Licking River | Water Production | \$3,231,056 | 75.82% |
| Engineering/Design | Water Production | 166,480 | 3.91% |
| Water Tower | Water Distribution | 390,998 | 9.17% |
| Sewer | Sewer | 472,999 | 11.10% |
| Total | | \$4,261,533 | 100.00% |

| | 1978 Issue | | 1987 Issue | | Total | |
|--------------------|--------------------|---------------|--------------------|---------------|--------------------|---------------|
| Sewer | \$647,955 | 53.6% | \$490,620 | 11.1% | \$1,138,575 | 20.2% |
| Water Production | 351,868 | 29.1% | 3,524,066 | 79.7% | \$3,875,934 | 68.8% |
| Water Distribution | 210,177 | 17.4% | 405,314 | 9.2% | \$615,491 | 10.9% |
| Total | \$1,210,000 | 100.0% | \$4,420,000 | 100.0% | \$5,630,000 | 100.0% |

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

RECEIVED
JAN 28 2000
PUBLIC SERVICE
COMMISSION

In the Matter of:

| | | |
|----------------------------------|---|-----------------|
| PROPOSED ADJUSTMENT OF THE |) | |
| WHOLESALE WATER SERVICE RATES OF |) | ADMINISTRATIVE |
| THE CITY OF CYNTHIANA, KENTUCKY |) | CASE NO. 99-300 |

INTERVENOR TESTIMONY

DOROTHY JO MASTIN
9 South Walnut Street
Cynthiana, Kentucky 41031
Telephone: (606) 235-9000

COUNSEL FOR HARRISON COUNTY WATER
ASSOCIATION, INC.

CERTIFICATE OF SERVICE

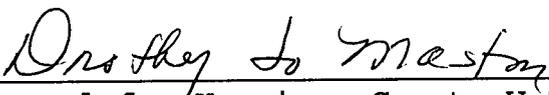
I hereby certify that a copy of this Intervenor Testimony was served by first class mail, postage prepaid, upon the following parties of record, this the 28th day of January, 2000:

Hon. Gerald Wuetcher
General Counsel
Public Service Commission
730 Schenkel Lane
P. O. Box 615
Frankfort, KY 40602

William R. Toadvine, President
Harrison County Water
Association, Inc.
P. O. Box 215
Cynthiana, KY 41031

Bruce F. Clark
Michele M. Whittington
Stites & Harbison
421 West Main Street
P. O. Box 634
Frankfort, KY 40602-0634

Virgie Florence Wells
Mayor
City of Cynthiana, KY
P. O. Box 67
Cynthiana, KY 41031



Counsel for Harrison County Water
Association, Inc.

HARRISON COUNTY WATER ASSOCIATION, INC.

REQUEST:

Intervenor testimony in verified form of all witnesses Intervenor intends to call at the scheduled hearing in this matter.

RESPONSE:

The direct testimony of the following witnesses that Harrison County Water Association, Inc. intends to call at the scheduled hearing in this matter is attached hereto:

1. Tony Harover, P.E.
2. William Robert Toadvine, President, Harrison County Water Association, Inc.

DIRECT TESTIMONY OF TONY HAROVER, PROFESSIONAL ENGINEER

1. Please state your name.

A: Tony Harover.

2. Where are you employed and in what capacity?

A: PEH Engineers; Professional Engineer/Senior Project Manager.

3. What is your educational background?

A: Bachelor of Science in Civil Engineering from the University of Kentucky, 1983.

4. When did you join PEH Engineers?

A: February, 1990.

5. Will you provide a Curriculum Vitae?

A. Yes. See attached as Exhibit 1.

6. Describe generally your job duties.

A: Planning, design and construction observation of water and wastewater facilities. This includes conveyance, pumping and storage systems.

7. Are you a licensed engineer? Please describe where you are licensed and give license numbers?

A. Yes. Licensed Professional Engineer in Kentucky (16732), Indiana (19900185), Tennessee (105646) and Texas (66796).

8. Describe your training and experience with water utilities.

A: Over 16 years of design and construction experience with water and wastewater utilities. I was employed by Martin K. Eby Construction Co., a general contractor, for nearly three years in the Dallas/Fort Worth, Texas, area. Projects associated with include both water and wastewater for the City of Fort Worth and surrounding communities. My career also includes work in the public sector. In the late 1980's, I spent almost four years in working for the City of Fort Worth, Texas, Water Department. I was involved in the planning, design and construction of both water wastewater projects during this period. For the past ten years, I have been employed by PEH Engineers. I have been involved in the planning, design and construction observation of water and wastewater facilities for utilities and municipalities located principally in Kentucky. More specifically, this work includes water distribution (hydraulic modeling, pumping, etc.) and storage facilities, and wastewater collection systems.

9. What was the beginning date of your employment by Harrison County Water Association, Inc?

A: Early in 1990 I began working with the Harrison County Water Association (HCWA).

10. What services do you perform in connection with that employment?

A. I attend meetings, assist in the planning, design and construction observation of water projects as directed by the HCWA Board. This includes hydraulic modeling, evaluating pumping and storage facility needs.

11. When did the City of Cynthiana indicate to the Harrison County Water Association that they needed to increase water rates?

A: My first formal indication was subsequent to the May 28, 1999, meeting between representatives of both parties. Over the past few years, I read in the newspaper and heard rumors of the City's need for a rate increase. I have also attended meetings (see answer to question 14 below) between both parties in which the City mentioned the need to increase rates.

12. When and what was the response of the Harrison County Water Association?

A: Each time that I was present when this subject arose, the HCWA asked the City to provide a cost/study analysis supporting the need.

13. Did the HCWA ever indicate that they would not be cooperative with the City of Cynthiana in determining cost to the City of providing water to HCWA?

A: Not that I am aware of.

14. When and what meetings did you attend between the City of Cynthiana and the HCWA regarding the basis for a rate increase?

A: I attended a meeting on December 8, 1998, with then Mayor Jim Brown and Clyde Hicks (City of Cynthiana), Bob Sturdivant and Joe Lewis (Quest Engineers), Danny Northcutt (HCWA), and myself. This meeting was requested by HCWA to discuss several issues of concern to HCWA. The main objective of this meeting was to follow-up on pressure and flow concerns in the Stokely Lane mastermeter (Harrison Square Shopping Center) area. Refer to letter dated August 20, 1998, attached as Exhibit 2. Other issues discussed consisted of flow concerns combined with high ground elevations (potential low pressures) in the Webber mastermeter (KY 36/Gasser Lane) area, information relative to the proposed industrial park and general questions concerning future plans/projects.

Mayor Brown also brought up the subject of water rates, providing revenue versus usage pie charts for the previous months. However, no actual cost/study was ever presented.

15. Did the City cooperate in providing a cost/study basis for seeking an increase?

A: Not that I am aware of until it was required following HCWA's intervention.

16. Are you familiar with the current rate increase being sought by the City of Cynthiana relative to the Harrison County Water Association, Inc.?

A: Yes. I have been assisting the HCWA evaluate testimony and develop supplemental information requests.

17. Do you attend the monthly meetings of the Harrison County Water Association, Inc. Board of Directors?

A: Yes, with few exceptions.

18. Has there ever been any indication to you that HCWA was aggressively seeking new customers?

A: No. HCWA receives petitions from those seeking potable water service. Periodically, the Board, assisted by the Manager, review these requests to evaluate the feasibility of applying for federal assistance for extension of service. It is not unusual for those in unserved areas to attend Board Meetings

19. Would it be possible to do a surcharge on Harrison County Water Association, Inc. bills to cover the cost to the City of the drought of 1999?

A: Yes. I believe costs for emergency/special occurrences could be handled outside the base rate structure. However, I am not sure a surcharge would be the way to handle it.

20. In the testimony of Mayor Wells answering Question 9 on page 2, the Mayor indicates that the back up water supply has been in place since 1987, however, her answer indicates that it was never used until August 1999, can you explain why the HCWA is just now being assessed a cost for this back up supply?
- A. No.
21. In Carlos Miller's Testimony of November 15, 1999, (Item 1c, Question 14, Sheet 4 of 8), he testifies that HCWA has 7 mastermeters with connection points around the city, and that HCWA utilization of the City's distribution system was generally uniform. Do you dispute that testimony?
- A. Yes, HCWA has eight (8) mastermeters at connection points to the City of Cynthiana. See Exhibit 3 for location of mastermeters. Two (2) locations (Millersburg & White Oak) account for less than one percent on average of the purchases from the City, another location (Old Lair) accounts for less than two percent. Based on data from HCWA for the past 2 years, approximately 75 percent of water purchases come from three (3) locations (Republican, Stokely and Webber). See attached spread sheet (master meter readings summarizing the mastermeter readings taken by HCWA).
22. Do you agree with Carlos Miller's testimony in Item 12a, Sheet 1 of 2, regarding lines jointly used with HCWA?
- A. No. I do not agree with quantities of lines jointly used by Cynthiana and HCWA as outlined in Item 12, Sheet 1 of 2. See Exhibit 3 for identified areas. See attached spreadsheet (pipe sizes and lengths in noncontributing areas) summarizing these areas with quantities and accompanying basis substantiating these findings.

23. In Item 12c, Sheet 2 of 2, in response to Question C of Item 12, Sheet 1 of 2, Carlos Miller's testimony, he responds to the question, "Besides Harrison County, what other customers, if any, does Cynthiana serve from the water mains that it uses to deliver water to Harrison County?" Response: "All of Cynthiana's customers are served via the mains that deliver water to Harrison County." Do you agree with that testimony?
- A. HCWA does not agree that all of Cynthiana's customers are served via the mains that deliver water to HCWA. See previous testimony on lines jointly used. See Exhibit 44 for identified areas. See attached spreadsheet (pipe sizes and lengths in contributing areas) summarizing these areas with quantities and accompanying basis substantiating findings.
24. Mr. Miller testifies in Item 18, Sheet 1 of 1, regarding Cynthiana's proposed rate for water service to Harrison County, do you agree with that testimony?
- A. HCWA does not agree with the wholesale rate (\$2.20 per 1,000 gallons) proposed at point. The City has asked for \$2.11 per gallon, then \$2.15 per gallon, and finally \$2.20 per gallon. See attached spreadsheets (Cynthiana water rates) as Exhibit 5 which are duplicates of that contained in Item 23).
25. Do you question Jerry Hensley's testimony, Item B, questions 8 and 9, Sheet 2 of 5), regarding the allocation of public works and other departments based on timesheets for four week period beginning June 19, 1999?
- A. Yes. Allocation of public works and other departments is questioned because there is no record or basis for some employees coding of time. It has been noted that several clerical staff are involved in administrative duties relative to other areas of City business such as tax collection, refuse collection bills, occupational licenses and other fees. Further, at Item 6, Sheet 2 of 6, timesheets for the two week period included are suspect for the following reasons:

- a) All sewer time is charged on Monday (6/19/99);
 - b) Water time charged on Tuesday (6/20/99), Wednesday, (6/21/99), Monday (6/26/99) and Tuesday (6/27/99); for the two week period included in Jerry Hensley's testimony as Exhibit 1.
26. Do you agree with Carlos Miller's response in his testimony of December 13, 1999 (Item 1, Sheet 1 of 1) wherein he includes the pump, pumping costs and cost of drought in rate calculation?
- A. No, I do not agree. I would prefer these costs be addressed outside of the established rate structure.
27. Do you agree with Carlos Miller/Joe Lewis's Response to HCWA question regarding the purpose for building the 16" water line from the filtration pump to the Bundy Tower?
- A. No. I do not agree. There is minimal benefit to HCWA from main and/or new standpipe. Data provided thus far has been inadequate to approve or disapprove the benefit to HCWA. Information provided has not been detailed enough to substantiate the benefit. Also design reports for this project have never been provided.
28. Does HCWA agree with the City's selection of July of 1998 as representing a normal month?
- A. No. It has been my experience to avoid just using summer and winter months to make annual projections. Utilization of July most probably skews Mr. Hensley's allocation of public works and other departments as described above.
29. In Jerry Hensley's/Charlene McIlvain's response to the PSC on December 13, 1999, Item 12c, Sheet 2 of 139, do you agree with the allocation of the audit expenses and bond fee expenses?

- A. No. I do not agree because each of these expenses should be properly allocated. In Carlos Miller's Response to PSC dated December 13, 1999, Item 17, Sheet 3 of 3, he indicates approximately 20% of the 1992 Bonds were allocated to sewer.
30. In Carlos Miller/Jerry Hensley/Joe Lewis Response to HCWA on December 13, 1999, Item 20b, Sheet 2 of 2, a 10 year depreciation period is used on a pump, is this acceptable?
- A. A ten year depreciation period on a pump and motor is acceptable but all other remaining costs should be based on service life (20 years). Actual costs, in lieu of estimated costs, should be utilized.
31. Is it your belief that the cost of outside counsel should be excluded from this particular rate case?
- A. Yes, based on the City's failure to negotiate and provide the necessary information (cost of service study) as part of a proper negotiation, the cost of outside counsel should be excluded. If fair and proper negotiations had taken place, outside counsel most likely would not have been necessary.

DIRECT TESTIMONY OF WILLIAM R. TOADVINE

1. Please state your name.
 - A. William Robert Toadvine.
2. What is your profession?
 - A. Farmer.
3. What is your educational background?
 - A. High school graduate; BS in Agriculture from University of Kentucky.
4. How long have you been a member of the Harrison County Water Association, Inc. Board of Directors?
 - A. 20+ years
5. When and why was the Harrison County Water Association, Inc. formed?
 - A. The HCWA was formed in mid 1960s to furnish potable water to the rural residents of Harrison County at the urging of community leaders and also the University of Kentucky Extension Service.
6. When did you become an officer for that Board?
 - A. 1984 or 1985.
7. When did you become President of the Association?
 - A. 1998.

8. Have you ever received any compensation in your capacity as a Board Member or as an Officer of the Water Association?
 - A. The Officers and members of the Board have always served without any compensation, however, as of January 1, 2000, the Officers and Board Members of the HCWA have started receiving a small salary.
9. Does the Harrison County Water Association seek new customers aggressively?
 - A. The HCWA hasn't aggressively sought new members probably for the last 15 years. People are so anxious for water that they continually petition us to serve them on the rural roads. It is our job to seek funding and engineering expertise to install these lines and furnish water.
10. When did you first learn that the City of Cynthiana was seeking a rate increase?
 - A. We first realized the City had applied for a rate increase sometime in June of 1999.
11. When did the City of Cynthiana tell Harrison County Water Association that they were having problems with the cost of water to their customers?
 - A. Over the past 18 months some informal meetings have been held to discuss the need for a rate increase to HCWA plus all other users in the City's system that used over 1/2 million gallons per month.
12. Did you attend any meetings with the City of Cynthiana regarding a rate increase?

- A. I met with Mayor Wells, Commissioner Lancaster and Danny Northcutt on May 28, 1999, and we were informed that the City was going to raise our rates along with the other large users (factories) on the City's system and they were going to make this effective July 1, 1999.
13. When and where?
- A. Harrison County Water Association office, Cynthiana, Kentucky, on May 28, 1999.
14. Who was present?
- A. Mayor Wells, Commissioner Lancaster, Danny Northcutt and myself.
15. In the City's testimony there is some indication that the Harrison County Water Association was actively aggressively seeking customers? Is that true, Mr. Toadvine, and would you please expand on that?
- A. As was answered in the previous question, we are not actively seeking new customers, plus subdivisions that have been in the county and new customers along the lines, we have no choice but to accept them because of Public Service regulations.
16. Is it your feeling that by such a great increase that the Harrison County Water Association will be subsidizing City customers?
- A. We feel because of the amount of rate increase they have asked for that they would be subsidizing City customers, especially the other large users.
17. Is it your position that the City of Cynthiana could do a surcharge rather than a rate increase that would allow them to recover the cost they expended during the drought of 1999?

- A. No, the HCWA would rather pay our share of the costs of pumping water from the Main Licking River on a monthly basis when it is needed.
18. Would that be on a three year basis?
- A. That would be on a monthly basis as needed. We would pay our share of the cost each time period that the pump is in use or is needed.
19. When did the City of Cynthiana come to the Harrison County Water Association and say they were seeking a rate increase?
- A. At a meeting on May 28, 1999, the City stated that they wanted a rate increase
20. What was Harrison County Water Association, Inc.'s reply?
- A. Our reply was if you will give us some cost figures then we will be more than glad to negotiate a rate increase with you.
21. Please explain giving a time sequence of what happened next after that.
- A. The next thing we knew was that the City had applied for a rate increase without coming to the HCWA with cost associated with a rate increase that we had asked for previously.
22. Did you receive a letter from Mayor Wells on June 2, 1999, saying the City was seeking a rate increase?
- A. Yes. The letter stated the City was filing a rate increase application with the Public Service Commission immediately.
23. Did this surprise you?

- A. Yes, because only five days earlier it was my understanding the City would be providing some basic cost figures showing they needed a rate increase. The City never bargained with us in good faith. Our next communication from Mayor Wells was to the effect the City would be raising our rate to \$1.61 effective July 1, 1999. We would never have had to intervene in the City's request for a rate increase with the Public SC if they had given us basic cost figures before riling the rate increase application.
24. Mayor Wells indicates in her testimony that the City would abandon the Purchase Water Contract, specifically as it relates to HCWA. How would you rebut that testimony?
- A. I do not agree with the City's abandonment of the Purchase Water Contract with HCWA. Currently, quantity users are paying the same rate for water as the HCWA. If the Contract is abandoned wherein HCWA pays a higher rate then the lowest user rate currently being adhered to under the Contract (see Item 1A, Sheet 11 of 19 - Water Purchase Contract, paragraphs 6 and 7). As the lowest user, we would be subsidizing the large users. Any deviation from this would undoubtedly constitute other customers receiving a discount or being subsidized.
25. Do you disagree with the way Mayor Wells handled this rate increase application?
- A. Mayor Wells recklessly initiated action on behalf of the City against HCWA "without approval of the Board" as noted in paragraph 3 of the August 19, 1999, Special Meeting Minutes.
26. Has the HCWA ever made an offer to the City to settle this matter?

- A. Yes. After receiving some of the City's cost study analysis information, the Board of Directors unanimously approved a rate increase proposal to the City of Cynthiana on January 20, 2000. The rate increase offer was \$1.61 per 1,000 gallons and the HCWA further proposed to reimburse the City of Cynthiana for their proportionate share of the costs to the City for the expenses incurred for bringing water from the Main Licking River to the Central Distribution Center during the 1999 drought. Further, HCWA proposed to reimburse the City for their proportionate share of any future expenses the City incurs in an emergency situation when the pump from the Main Licking River to the City of Cynthiana is called into use.

Anthony S. Harover, P.E.

Education

B.S. Civil Engineering - University of Kentucky, Lexington, Kentucky, 1983

Registration

Professional Engineer in Kentucky, Texas, Indiana, and Tennessee

Field of Expertise

Hydraulics: Water Distribution Planning, Design, and Construction; Wastewater Collection Planning, Design, and Construction; Computer Modeling; Contract Administration and Project Management

Positions Held

| | | |
|--|----------------|--------------------------|
| PEH Engineers | 1990 - Present | Project Engineer/Manager |
| Fort Worth Water Department | 1986 - 1990 | Design Engineer/Chief |
| Martin K. Eby Construction Company, Inc. | 1983 - 1986 | Field/Project Engineer |

Professional Experience

- **Water Distribution** experience includes the planning, design, and construction of numerous projects for public and private water systems. Computer hydraulic analysis for the Virginia Air National Guard, Willamette Industries, and various utility districts. Provided client assistance on securing state and federal project financing from programs such as Rural Economic and Community Development (formerly Farmers Home Administration), Housing and Urban Development, the Appalachian Regional Commission, and the Kentucky Infrastructure Authority.
- **Wastewater Collection** planning, design and construction experience includes projects for the City of Bardstown, and the Louisville and Jefferson County Metropolitan Sewer District (MSD), and temporary assignments within the Design-Construction Department, as well as other clients.
- **Previous employment** offered experience supervising in-house design and mapping sections for various water and wastewater projects, and with utility relocations, wastewater treatment plant modifications, and pump station/intake structure projects.

Professional Affiliations

- American Society of Civil Engineers
- American Water Works Association
- Consulting Engineers Council of Kentucky
- Kentucky Society of Professional Engineers
- Kentucky Rural Water Association
- National Society of Professional Engineers
- National Rural Water Association

CYNTHIANA

CYNTHIANA STREET INDEX

This index is a listing of the streets in the city of Cynthiana, Kentucky, and is intended to be used in conjunction with the street map on the opposite page. The streets are listed in alphabetical order, and the page number of the map is given in parentheses at the end of each entry.

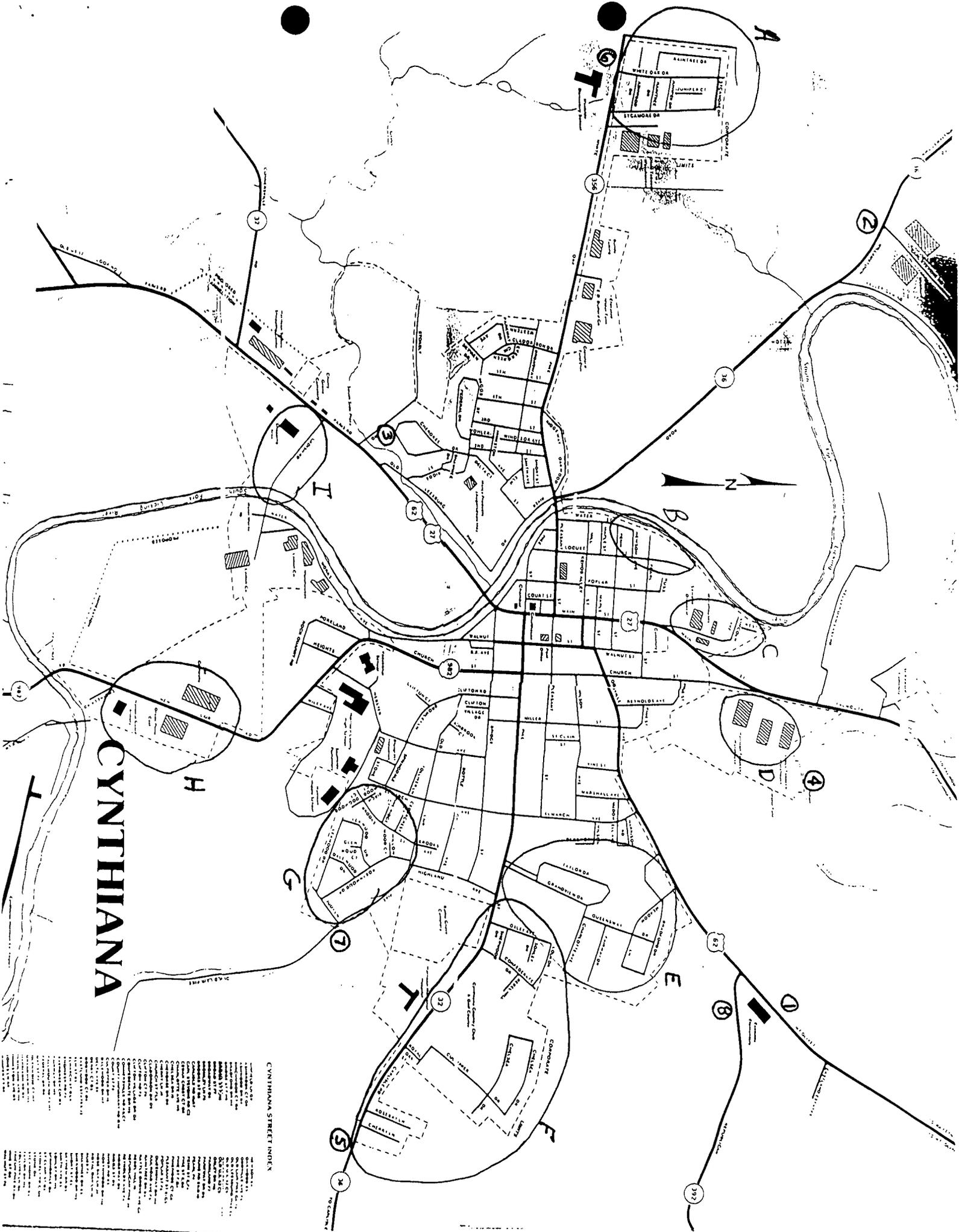
Abbreviations:
 C. - Church
 H. - Highway
 R. - River
 S. - School
 St. - Street
 Tr. - Turnpike
 W. - Waterway

Map Symbols:
 A shaded area indicates a building or structure.
 A circle with a number inside indicates a specific location or landmark.
 A dashed line indicates a boundary or limit.

Map Orientation:
 The map is oriented with North at the top. A north arrow is located in the upper right quadrant.

Map Labels:
 Major streets are labeled with their names and numbers. For example, Main St. (27), Church St. (32), and Broadway St. (36).
 Landmarks and buildings are labeled with their names, such as the Court House, City Hall, and various churches.

Map Features:
 The map shows a grid of streets, with some streets curving or branching. It also depicts the Cynthiana River and several bridges.



| | | <u>Average</u> | <u>Total</u> | <u>% of Total</u> |
|-----|--------------------|----------------|--------------|-------------------|
| 1 a | Eastside | 2,195,767 | 26,361,200 | 9.22% |
| b | | 15,816 | 189,790 | 0.07% |
| 2 a | Webber | 168 | 2,020 | 0.00% |
| b | | 5,087,392 | 61,048,700 | 21.34% |
| 3 | Stokley Lane | 7,200,492 | 86,405,900 | 30.21% |
| 4 | North
Cynthiana | 3,016,100 | 36,193,200 | 12.65% |
| 5 | Millersburg | 39,867 | 478,400 | 0.17% |
| 6 a | White Oak | 26,065 | 312,780 | 0.11% |
| b | | 17 | 200 | 0.00% |
| 7 | Old Lair | 300,167 | 3,602,000 | 1.26% |
| 8 | Republican | 5,953,650 | 71,443,800 | 24.98% |

23,836,499 286,037,990

| | | <u>Average</u> | <u>Total</u> | <u>% of Total</u> |
|-----|--------------------|----------------|--------------|-------------------|
| 1 a | Eastside | 2,167,855 | 23,846,400 | 8.35% |
| b | | 33,699 | 370,690 | 0.13% |
| 2 a | Webber | 405 | 4,460 | 0.00% |
| b | | 5,348,518 | 58,833,700 | 20.60% |
| 3 | Stokley Lane | 7,585,645 | 83,442,100 | 29.21% |
| 4 | North
Cynthiana | 3,189,636 | 35,086,000 | 12.28% |
| 5 | Millersburg | 47,964 | 527,600 | 0.18% |
| 6 a | White Oak | 28,206 | 310,270 | 0.11% |
| b | | 9 | 100 | 0.00% |
| 7 | Old Lair | 364,091 | 4,005,000 | 1.40% |
| 8 | Republican | 7,202,218 | 79,224,400 | 27.73% |

25,968,247 285,650,720

Location
 2
 4
 6
 8
 10
 12
 16
 Pipe Size

| Location | 2" | 4" | 6" | 8" | 10" | 12" | 16" |
|--|----|--------|--------|---------|---------|--------|--------|
| A Raintree Drive Subdivision | | | 3,280' | | | | |
| B Dead end mains North Locust | | 400' | 720' | | | | |
| C Dead end mains North Main & Lincoln | | 440' | 400' | 1,360' | | | |
| D Dead end mains Northeast Warehouses | | | 800' | 1,200' | | | |
| E Subdivision with poor fire flows, connected by 6", 4", and 2" | | 2,960' | 920' | 6,560' | | | |
| F Subdivision of dead end mains Add in 8" main in KY 32/36 due to low demand | | | 720' | 10,240' | | | |
| G Subdivision of dead end mains Verify line sizes | | 4,560' | 1,960' | | | | |
| H Dead end mains J&M Company | | | | 120' | 6,160' | | |
| I Dead end mains Ladish/Cherry Grove Cemetary | | | 2,000' | 2,240' | | | |
| Total | | 7,520' | 5,800' | 14,480' | 13,800' | 1,360' | 6,160' |

For the entire system:
 2" 10,300
 4" 41,500

pipe sizes and lengths in Noncontributing areas

EXHIBIT 2

INCH-MILE DATA

| <u>SIZE
(INCHES)</u> | <u>LENGTH
(MILES)</u> | <u>TOTAL
INCH-MILES</u> | <u>HCWA
JOINTLY USED
INCH-MILES</u> |
|--------------------------|---------------------------|-----------------------------|---|
| 1 | 0.72 | 0.72 | 0.00 |
| 2 | 1.95 ⁽¹⁾ | 3.90 | 0.00 |
| 3 | | 0.00 | 0.00 |
| 4 | 7.86 ⁽²⁾ | 31.44 | 0.00 |
| 6 | 7.69 | 46.14 | 29.69 ⁽³⁾ |
| 8 | 4.77 | 38.16 | 17.25 ⁽⁴⁾ |
| 10 | 5.63 | 56.30 | 53.72 ⁽⁵⁾ |
| 12 | 1.52 | 18.24 | 2.67 ⁽⁶⁾ |
| 16 | <u>2.42</u> | <u>38.72</u> | <u>11.23</u> ⁽⁷⁾ |
| | 32.58 | 233.62 | 114.56 |

$$\text{HCWA Inch-Mile Ratio} = \frac{114.56}{233.62} = 0.4904$$

Notes on revisions to Inch-Mile Data per pipe sizes and lengths in noncontributing areas spreadsheet

- (1) Quantity not included in City's cost-of-service study
- (2) Quantity increased by 22,400' from that included in City's cost-of-service study
- (3) Quantity reduced by 14,480' from that included in City's cost-of-service study
- (4) Quantity reduced by 13,800' from that included in City's cost-of-service study
- (5) Quantity reduced by 1,360' from that included in City's cost-of-service study
- (6) Quantity reduced by 6,160' from that included in City's cost-of-service study and by multiplying by 0.63 carrying capacity factor.
- (7) Quantity reduced from that included in City's cost-of-service study by multiplying by 0.29 carrying capacity factor.

Use of this ratio is somewhat flawed since system deficiencies such as those evidenced by fire hydrant flow tests and increased headlosses to HCWA during peak flow conditions are not reflected. Since HCWA is only supplied directly by 10" in one location and 8" or 6" in all other locations, the benefit from mains >10" has been reduced by a factor based on carrying capacity in relation to the 10". These factors are 0.63 and 0.29 for 12" and 16" respectively.

EXHIBIT 4

ALLOCATION FACTORS

$$\text{Cynthiana Water Production Multiplier} = \frac{1}{1 - 0.1331} = 1.1536$$

Harrison County W.A. Allocation Factors

$$\begin{aligned} \text{HCWA Inch-Mile Ratio (Exhibit 2 HCWA version)} &= 0.4904 \\ \text{HCWA Share of Lines Loss} &= 0.4904 \times 0.1176 = 0.0577 \\ \text{Joint Share of Line Loss plus Plant Use} &= 0.0577 + 0.0155 = 0.0732 \end{aligned}$$

$$\text{Water Production Multiplier} = \frac{1}{1 - 0.0732} = 1.0790$$

$$\text{Water Production Allocation Factor} = \frac{1.0790 \times 295,300.1^{(1)}}{1.1536 \times 622,694.4^{(1)}} = 0.4436$$

$$\text{Transmission Factor} = \frac{295,300.1}{622,694.4} \times 0.4904 = 0.2325$$

$$\text{Usage Factor}^{(2)} = \frac{295,300.1}{622,694.4} = 0.4742$$

⁽¹⁾ Water Sales, See Exhibit 3

⁽²⁾ Ratio of Water Sales

EXHIBIT 5

SPECIFIC EXPENSES AND TEST YEAR ADJUSTMENTS

1. Meters & Services

| | |
|--|------------------------|
| \$17.95 per hour x 41.5 hours = | \$745 ⁽¹⁾ |
| Annual Depreciation: | |
| Meter Testing Equipment: \$10,000 / 10 yrs = | \$1,000 ⁽¹⁾ |
| Meter & Services: Per City's Depreciation Schedule = | 245 |
| | <u>\$1,245</u> |

2. Customer Accounts

| | |
|----------------------------------|----------------|
| \$96,122 (Salaries & Benefits) | |
| 16,486 (Supplies & Misc) | |
| <u>\$112,608 ⁽¹⁾</u> | |
| Depreciation: \$25,685 / 5 yrs = | <u>\$5,137</u> |

3. Cost of Drought

| | |
|--|----------|
| \$78,848 ⁽¹⁾ | |
| Amortize over three years: Annual Cost = | \$26,283 |

4. Rate Case Cost

| | | |
|--|----------------|---------|
| Stites & Harbison | \$15,000 | |
| Kenvirons, Inc. | 8,000 | |
| Estimated Cost | <u>\$8,000</u> | |
| Amortize over three years: Annual Cost = | | \$2,667 |

HCWA does not agree that it should participate in these costs since legitimate negotiations would not have involved these services

5. Installation of Back-up Raw Water Pump

| | |
|---|----------------|
| \$143,185 ⁽²⁾ | |
| Annual Depreciation (pump & motor): \$55,244 / 10 yrs = | \$5,524 |
| Annual Depreciation (balance): \$87,941 / 20 yrs = | \$4,397 |
| | <u>\$9,921</u> |

(1) Costs provided by City
 (2) Cost based on Engineer's estimate

EXHIBIT 7

**ALLOCATION OF PRODUCTION AND TRANSMISSION COSTS
AND
DETERMINATION OF WHOLESALE RATE**

| | <u>TOTAL
COSTS</u> | <u>ALLOCATION
FACTOR</u> | <u>COST ALLOCATED
TO HCWA</u> |
|--|--|------------------------------|-----------------------------------|
| I. Test Period Costs | | | |
| 1.1 <u>Operating & Maintenance</u> | | | |
| Water Production | \$ 327,402 | 0.4436 ⁽⁵⁾ | \$ 145,223 |
| Transmission & Distribution | 100,116 | 0.2325 ⁽⁵⁾ | 23,402 |
| 1.2 <u>Debt Service</u> | | | |
| Water Production | 439,177 | 0.4436 | 194,802 |
| Transmission & Distribution | 69,730 | 0.2325 | 16,216 |
| 1.3 <u>Debt Service Coverage</u> | | | |
| Water Production | 109,794 | 0.4436 | 48,700 |
| Transmission & Distribution | 17,432 | 0.2325 | 4,054 |
| 1.4 <u>Depreciation</u> | | | |
| Water Production | 201,331 | 0.4436 | 89,524 |
| Transmission & Distribution | 77,180 | 0.2325 | 17,948 |
| TOTAL TEST PERIOD COSTS | \$ 1,342,663 | | \$ 539,749 |
| II. Test Period Adjustments | | | |
| 2.1 Cost of 1998 Drought | \$ 26,283 | 0.4436 | 11,658 |
| Water Production | <div style="border: 1px solid black; padding: 2px; display: inline-block;"> HCWA believes that it should participate in these costs similar to other cost allocations </div> | | |
| 2.2 <u>Rate Case Expense</u> | \$2,667 ⁽²⁾ | 0.4436 ⁽²⁾ | \$ 1,183 |
| 2.3 <u>Raw Water Pump</u> | | | |
| Depreciation | \$ 9,921 ⁽³⁾ | 0.4436 | \$ 4,401 |
| Total Adjustments | \$ 38,871 | | \$ 17,242 |
| Total Cost | \$ 1,381,534 | | \$ 556,990 |

$$\text{Wholesale rate} = \frac{556,990}{295,300.1} = 1.89 \text{ per 1,000 Gallons}$$

⁽¹⁾ Exhibit 5, Item 3

⁽²⁾ Exhibit 5, Item 4. Allocation factor equals 1.0 because rate case is specifically for the purpose of determining HCWA rate

⁽³⁾ Exhibit 5, Item 5.

⁽⁴⁾ Exhibit 5, Item 6. Allocation factor is usage factor calculated in Exhibit 4.

⁽⁵⁾ Water Production Factor, See Exhibit 4

⁽⁶⁾ Transmission Factor, See Exhibit 4

EXHIBIT 6

SUMMARY OF TEST PERIOD COSTS

| | WATER
PRODUCTION | TRANSMISSION &
DISTRIBUTION | METERS &
SERVICES | CUSTOMER
ACCOUNTS | TOTALS |
|--|-------------------------|--------------------------------|----------------------|------------------------|--------------|
| Operation & Maintenance | 327,402 ^{(3)A} | 100,116 ^{(3)A} | 745 ⁽¹⁾ | 112,608 ⁽²⁾ | \$ 540,871 |
| Depreciation | 201,831 ^{(3)A} | 77,180 ^{(3)A} | 1,245 ⁽¹⁾ | 5,137 ⁽²⁾ | \$ 285,393 |
| Debt Service | 439,177 ⁽⁴⁾ | 69,730 ⁽⁴⁾ | | | \$ 508,907 |
| Debt Service Coverage @ 25% | 109,794 | 17,432 | | | \$ 127,227 |
| | 1,078,204 | 264,458 | 1,990 | 117,745 | \$ 1,462,398 |
| Less: Debt Service | | | | | 508,907 |
| Debt Service Coverage | | | | | 127,227 |
| Total Water Operating Expenses per Audit | | | | | \$ 858,336 |

⁽¹⁾ See Exhibit 5, Item 1

⁽²⁾ See Exhibit 5, Item 2

⁽³⁾ Costs for 1999 based on document provided by City and contained in Appendix A

⁽⁴⁾ Per breakdown of 1992 Bond Issue provided by City:

^A See Cost Allocation sheet

| | % | Proportioned Debt Service | | | 3-year
Average |
|-------------------------------|---------|---------------------------|-----------|-----------|-------------------|
| | | 1999 | 2000 | 2001 | |
| Water Production: | 68.84% | \$446,289 | \$437,133 | \$434,109 | \$439,177 |
| Trans. & Dist.: | 10.93% | 70,859 | 69,405 | 68,925 | 69,730 |
| Sewer: | 20.23% | 131,151 | 128,460 | 127,572 | 129,061 |
| Total Debt Service per Audit: | 100.00% | \$648,299 | \$634,999 | \$630,606 | \$637,968 |

1978 Bond Issue

| Purpose | Allocation | Amount | % of Original Issue |
|------------------------|--------------------|-------------|---------------------|
| Refund 1958 Issue | Sewer | \$115,000 | 4.08% |
| Refund 1964 Issue | Water Production | 620,000 | 29.03% |
| Refund 1969 Issue | Water Distribution | 40,000 | 1.42% |
| Refund 1971 Issue | Water Distribution | 450,000 | 15.95% |
| New Sewer Construction | Sewer | 1,395,000 | 49.47% |
| Total | | \$2,820,000 | 100.00% |

1987 Bond Issue

| Purpose | Allocation | Amount | % of Original Issue |
|-------------------------------|--------------------|-------------|---------------------|
| Water Intake to Lickinn River | Water Production | \$3,231,056 | 75.82% |
| Engineering/Design | Water Production | 100,400 | 2.31% |
| Water Tower | Water Distribution | 390,998 | 9.17% |
| Sewer | Sewer | 472,999 | 11.10% |
| Total | | \$4,281,533 | 100.00% |

| | 1978 Issue | 1987 Issue | Total |
|--------------------|--------------------|--------------------|--------------------|
| Sewer | \$647,955 53.8% | \$490,620 11.1% | \$1,138,575 20.2% |
| Water Production | 351,868 29.1% | 3,524,066 79.7% | \$3,875,934 68.8% |
| Water Distribution | 210,177 17.4% | 405,314 9.2% | \$615,491 10.9% |
| Total | \$1,210,000 100.0% | \$4,420,000 100.0% | \$5,630,000 100.0% |

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

RECEIVED

JAN 27 2000

PUBLIC SERVICE
COMMISSION

In the Matter of:

PROPOSED ADJUSTMENT OF THE)
WHOLESALE WATER SERVICE RATES OF) ADMINISTRATIVE
THE CITY OF CYNTHIANA, KENTUCKY) CASE NO. 99-300

SUPPLEMENTAL RESPONSE OF CITY OF CYNTHIANA
TO COMMISSION ORDER DATED JANUARY 4, 2000

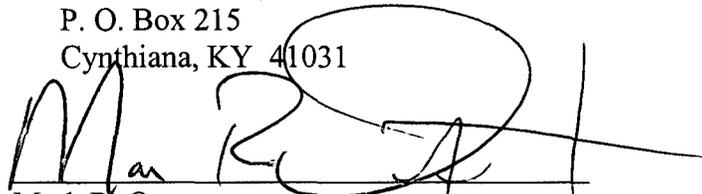
Bruce F. Clark
Mark R. Overstreet
Michele M. Whittington
STITES & HARBISON
421 West Main Street
P.O. Box 634
Frankfort, KY 40602-0634
Telephone: (502) 223-3477
COUNSEL FOR CITY OF CYNTHIANA

CERTIFICATE OF SERVICE

I hereby certify that a copy of the Supplemental Response was served by first class mail, postage prepaid, upon the following parties of record, this 27th day of January, 2000.

Dorothy Jo Mastin, Esq.
9 South Walnut Street
Cynthiana, KY 41031

William R. Toadvine, President
Harrison County Water Association, Inc.
P. O. Box 215
Cynthiana, KY 41031


Mark R. Overstreet

CITY OF CYNTHIANA

REQUEST:

- a. Does Cynthiana intend to file a revised rate schedule to reflect its current proposed rate of \$2.20 per 1,000 gallons?
- b. If no, why not?

RESPONSE:

- a. Yes. The schedule is attached and has been filed with the PSC.
- b. Not applicable.

Witness: Mayor Virgie Wells



CITY OF CYNTHIANA

P.O. BOX 67
CYNTHIANA, KENTUCKY 41031
(606) 234-7150

ITEM NO. 10
SHEET 2 OF 3

January 19, 2000

Ms. Helen Helton
Executive Director
Commonwealth of Kentucky
Public Service Commission
730 Schenkel Lane
P.O. Box 615
Frankfort, Kentucky 40601

RECEIVED
JAN 24 2000
PUBLIC SERVICE
COMMISSION

Dear Ms. Helton:

I am filing an amended rate schedule effective August 1, 1999, based on the cost of service study that was performed on behalf of the City of Cynthiana.

Attached herewith is a copy of a letter sent to the Harrison County Water Association this date, for your information.

Yours truly,

Virgie Florence Wells
Virgie Florence Wells
Mayor
City of Cynthiana, Kentucky

VFW/kb

Enclosures: Amended Rate Schedule
Letter to Harrison County Water Association

CITY OF CYNTHIANA
Name of Issuing Corporation

CANCELLING P.S.C. NO. _____
SHEET NO. _____

REVISED

CLASSIFICATION OF SERVICE

| | RATE PER UNIT |
|---|--------------------------|
| CONTRACT WATER RATE FOR HARRISON COUNTY WATER ASSOCIATION - - - - - | \$2.20 PER 1,000 GALLONS |

RECEIVED

JAN 24 2000

PUBLIC SERVICE COMMISSION

REQUESTED EFFECTIVE DATE - AUGUST 1, 1999

DATE OF ISSUE _____

DATE EFFECTIVE _____

ISSUED BY _____
Name of Officer

TITLE _____

Issued by authority of an Order of the Public Service Commission of Kentucky
in Case No. _____ dated _____.

99-300



CITY OF CYNTHIANA

P.O. BOX 67
CYNTHIANA, KENTUCKY 41031
(606) 234-7150

RECEIVED

January 19, 2000

JAN 24 2000

Ms. Helen Helton
Executive Director
Commonwealth of Kentucky
Public Service Commission
730 Schenkel Lane
P.O. Box 615
Frankfort, Kentucky 40601

PUBLIC SERVICE
COMMISSION

Dear Ms. Helton:

I am filing an amended rate schedule effective August 1, 1999, based on the cost of service study that was performed on behalf of the City of Cynthiana.

Attached herewith is a copy of a letter sent to the Harrison County Water Association this date, for your information.

Yours truly,

Virgie Florence Wells
Mayor
City of Cynthiana, Kentucky

VFW/kb

Enclosures: Amended Rate Schedule
Letter to Harrison County Water Association

P.S.C. NO. _____

SHEET NO. _____

CANCELLING P.S.C. NO. _____

SHEET NO. _____

CITY OF CYNTHIANA
Name of Issuing Corporation

REVISED

CLASSIFICATION OF SERVICE

RATE
PER UNIT

CONTRACT WATER RATE FOR HARRISON COUNTY WATER ASSOCIATION - - - - -

\$2.20 PER
1,000 GALLONS

99-300
RECEIVED

JAN 24 2000

PUBLIC SERVICE
COMMISSION

REQUESTED EFFECTIVE DATE - AUGUST 1, 1999

DATE OF ISSUE _____

DATE EFFECTIVE _____

ISSUED BY _____
Name of Officer

TITLE _____

Issued by authority of an Order of the Public Service Commission of Kentucky
in Case No. _____ dated _____.



CITY OF CYNTHIANA

P.O. BOX 67
CYNTHIANA, KENTUCKY 41031
(606) 234-7150

January 19, 2000

Mr. William R. Toadvine
President
Harrison County Water Association
P.O. Box 215
Cynthiana, Kentucky 41031

Dear Mr. Toadvine:

Please find a copy of the amended rate schedule we filed with the Public Service Commission today.

Yours truly,

A handwritten signature in cursive script that reads "Virgie Florence Wells". The signature is written in black ink and is positioned above the printed name.

Virgie Florence Wells
Mayor
City of Cynthiana, Kentucky

VFW/kb

Enclosure: Rate Schedule (copy)

Dorothy Jo Mastin

Attorney at Law

9 S. Walnut Street
Cynthiana, Kentucky 41031

Office: 606-235-9000

Fax: 606-235-0186

January 21, 2000

RECEIVED

JAN 25 2000

PUBLIC SERVICE
COMMISSION

Hon. Helen Helton
Executive Director
Public Service Commission
730 Schenkel Lane
P. O. Box 615
Frankfort, Kentucky 40601

Re: Proposed Adjustment of the Wholesale Water Service Rates
of the City of Cynthiana, Kentucky
Public Service Commission
Case No. 99-300

Dear Ms. Helton:

Please find enclosed a copy of a letter and proposal that the Harrison County Water Association, Inc. has mailed to Hon. Bruce F. Clark, Hon. Michele M. Whittington and Mrs. Virgie Wells in an attempt to settle the matter between the City of Cynthiana and the Harrison County Water Association, Inc. in Case No. 99-300.

If you have any questions about this, please feel free to contact me. Thank you for your help.

Sincerely,



Dorothy Jo Mastin
Attorney at Law

DJM:sjw

Enclosures

HARRISON COUNTY WATER ASSOCIATION
P. O. BOX 215
CYNTHIANA, KENTUCKY 41031
PHONE 234-4284

January 20, 2000

RECEIVED

JAN 25 2000

PUBLIC SERVICE
COMMISSION

Hon. Bruce F. Clark
Hon. Michele M. Whittington
Stites & Harbison
Attorneys at Law
421 West Main Street
P. O. Box 634
Frankfort, Kentucky 40602-0634

Mrs. Virgie Wells, Mayor
City of Cynthiana, Kentucky
P. O. Box 67
Cynthiana, Kentucky 41031

Re: Proposed Adjustment of the Wholesale Water Service Rates of
the City of Cynthiana, Kentucky
Public Service Commission
Case No. 99-300

Dear Mr. Clark and Mayor Wells:

The Harrison County Water Association, Inc. met in monthly session on Wednesday, January 19, 2000, and the Board of Directors voted unanimously to make the enclosed proposal regarding a rate increase to the City of Cynthiana.

If you are in agreement, please let us know and we can enter into a formal Agreed Order with the Public Service Commission settling this matter and allowing the City of Cynthiana to implement this rate increase immediately.

Hon. Bruce F. Clark
Hon. Michele M. Whittington
January 20, 2000
Page 2

If you have any questions or comments about this, please call me.

Sincerely,

HARRISON COUNTY WATER ASSOCIATION, INC.

William R Toadvine
William Robert Toadvine
President

WRT:sjw

Enclosure

cc: Hon. Helen Helton, Executive Dir., Public Service Commission
Hon. Gerald Wuetcher, Public Service Commission

PROPOSAL

WHEREAS, the Harrison County Water Association, Inc. and the City of Cynthiana are involved in a rate increase before the Public Service Commissioner; and

WHEREAS, the parties are desirous of settling this dispute amicably between them because it is in the best interest of all customers of both utilities.

IT IS THEREFORE AGREED AS FOLLOWS:

1. The current water rates schedule effective July 1, 1992, is revised as follows:

First - 2,000 gallons - \$8.05 minimum
2,000 - 10,000 gallons - \$3.05 per 1,000 gallons
All additional gallons will be \$1.61 per 1,000 gallons

2. The Harrison County Water Association, Inc. further proposes to reimburse the City of Cynthiana for their proportionate share of the costs to the City for the expenses incurred for bringing water from the Main Licking River to the central distribution system during the 1999 drought.

3. The Harrison County Water Association, Inc. shall reimburse the City of Cynthiana for their proportionate share of any future expenses the City incurs in an emergency situation when the pump from the Main Licking River to the City of Cynthiana central distribution system is put into use.

Dated this 21 day of January, 2000.

HARRISON COUNTY WATER ASSOCIATION, INC.

BY: William R. Toadvine
William R. Toadvine

ITS: President

Effective Date 7/1/92

-NOTICE-

WATER RATES

First - 2,000 gallons - \$8.05 minimum

2,000 - 10,000 gallons - \$3.05 per 1000 gallons

10,000 - 500,000 gallons - \$1.61 per 1000 gallons

Over 500,000 gallons - \$1.27 per 1000 gallons

Water rates for water sold to the Harrison County Water Association shall be the same as the rates charged for property within the City.

SEWER RATES

First - 2,000 gallons - \$4.51 minimum bill

2,000 - 500,000 gallons - \$1.83 per 1000 gallons

Over 500,000 gallons - \$.84 per 1000 gallons

OUTSIDE THE CITY LIMITS

2. That the rates for water service for customers outside the City limits of the City shall be 1.4 times higher than the foregoing rates for the use by customers within the City. The rates for sewer service outside the City limits shall be the same as for sewer service inside the City limits.

**CITY OF CYNTHIANA, KY.
Water Department**

RECEIVED
JAN 21 2000
COMMISSION

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

PROPOSED ADJUSTMENT OF THE)
WHOLESALE WATER SERVICE RATES OF) ADMINISTRATIVE
THE CITY OF CYNTHIANA, KENTUCKY) CASE NO. 99-300

SUPPLEMENTAL RESPONSE OF CITY OF CYNTHIANA
TO COMMISSION ORDER DATED OCTOBER 1, 1999

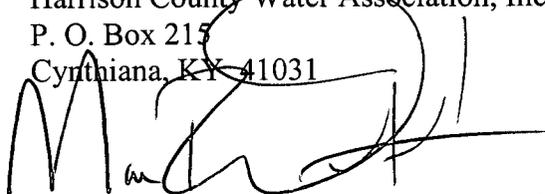
Bruce F. Clark
Mark R. Overstreet
Michele M. Whittington
STITES & HARBISON
421 West Main Street
P.O. Box 634
Frankfort, KY 40602-0634
Telephone: (502) 223-3477
COUNSEL FOR CITY OF CYNTHIANA

CERTIFICATE OF SERVICE

I hereby certify that a copy of the Supplemental Response was served by first class mail, postage prepaid, upon the following parties of record, this 21st day of January, 2000.

Dorothy Jo Mastin, Esq.
9 South Walnut Street
Cynthiana, KY 41031

William R. Toadvine, President
Harrison County Water Association, Inc.
P. O. Box 215
Cynthiana, KY 41031



Mark R. Overstreet

CITY OF CYNTHIANA

REQUEST:

Provide the "Enterprise Funds Uniform Financial Information Report" that Cynthiana submitted to the Kentucky Department of Local Government for the fiscal years ending June 30, 1998 and June 30, 1999.

RESPONSE:

Attached hereto is the Enterprise Funds Uniform Financial Information Report for the fiscal year ending June 30, 1998. Cynthiana has not yet received the Report for fiscal year ending June 30, 1999, but will provide said Report to the Commission upon receipt.

Witness: Jerry Hensley

FORM F-65(KY-3)
(8-13-99)

COMMONWEALTH OF KENTUCKY



**CITY
UNIFORM FINANCIAL
INFORMATION REPORT
FISCAL YEAR 1998-99**

18 2 049 002 5 01
City of Cynthiana
PO Box 67
Cynthiana, KY 41031

(Please correct any error in name, address, and ZIP Code)

**RETURN
TO**

Department for Local Government
1024 Capital Center Drive, Suite 340
Frankfort, KY 40601

City Classification (1st-6th)

GENERAL INSTRUCTIONS

All information should be provided on a cash basis for the fiscal year beginning July 1, 1998 and ending on June 30, 1999.

On the Tax Rate schedule a rate of 22 and 7/10 cents per \$100 assessed value should be reported .227.

ROUND TO THE NEAREST DOLLAR. DO NOT SHOW CENTS FOR REVENUES OR EXPENDITURES.

Use the blank columns for special funds, including Capital Projects and Debt Service funds. Label the fund at the top of the column. Make copies of the forms if you have more funds than there are columns on a page. If you have more than one Capital Projects fund you may total those funds into ONE Capital Projects reporting column in the Revenue Section and one column in the Expenditure Section. The same procedure may be used for Debt Service Funds.

THE ACTUAL TAX RATE LEVIED, COLUMN (d), PART III MUST BE COMPLETED EVEN IF THERE WAS NOT A CHANGE IN THE TAX RATE FROM FISCAL YEAR 1997-98.

Report only new debt or lease agreements. DO NOT COMPLETE THESE SECTIONS AGAIN IF THEY WERE REPORTED LAST YEAR AND THERE WERE NO CHANGES IN THE DEBT OR LEASE AGREEMENTS.

SEND ONE ORIGINAL AND TWO COPIES OF THE COMPLETED FORM to the Department for Local Government **BY MAY 1, 2000.**

Note: Data supplied by your city in this report will be used by State and Federal Agencies and public interest groups in Kentucky. By filing this report, you will not receive local government Finance Reporting Forms F-21 and F-22 from the U.S. Bureau of the Census.

| | | | |
|------------------------------|-----------|------------------|-----------|
| Name | Area code | Telephone number | Extension |
| England & Hensley, CPAs | 606 | 231-8678 | |
| Title | Date | | |
| Certified Public Accountants | 12-13-99 | | |

Part II - CERTIFICATION - Completed report must be signed prior to filing.

This is to certify that the data contained in this report are accurate to the best of my knowledge and belief.

| | | | |
|--------------------------|------------|------------------|-----------|
| Signature of official | Title | Date completed | |
| Sharleen M. McIlvain | City Clerk | 1/11/2000 | |
| Printed name of official | Area code | Telephone number | Extension |
| Sharleen M. McIlvain | 606 | 234 7150 | |

Remarks

Part III - TAX RATES

A. AD VALOREM TAX INFORMATION

| Source
(a) | Assessment
(b) | Compensating tax rate (Cents per \$100)
(c) | Actual tax rate levied (Cents per \$100)
(d) | Actual revenue
(e) |
|-----------------------------------|-------------------|--|---|-----------------------|
| 1. Real property | 155,166,953 | | .1380 | 214,130 |
| 2. Personal property | 23,701,789 | | .1380 | 32,708 |
| 3. Motor vehicles and water craft | | | .1600 | 28,972 |

B. LOCAL DEPOSITS FRANCHISE TAX

| Cash value
(a) | Taxable value
(b) | Rate levied
(c) | Revenue received
(d) |
|-------------------|----------------------|--------------------|-------------------------|
| \$ | \$ 160,756,769 | \$.025 | \$ 40,189 |

Part IV - CITY REVENUE

*If varying rates or fees are charged based upon classification, volume, value, or other criteria, the local government shall submit a fee or chart with the form.

| Revenue source
(a) | *Fee, Rate, or Amount Charged
(b) | General fund
(c) | (d) | (e) | (f) | (g) |
|---------------------------------------|--------------------------------------|---------------------|-----|-----|-----|-----|
| 1. Taxes | T01 | T01 | T01 | T01 | T01 | T01 |
| a. Property taxes | \$ | \$ 282,155 | \$ | \$ | \$ | \$ |
| b. Delinquent taxes (property) | T01 | T01 | T01 | T01 | T01 | T01 |
| c. Motel tax | T19 | T19 | T19 | T19 | T19 | T19 |
| d. Restaurant tax | T19 | T19 | T19 | T19 | T19 | T19 |
| e. Insurance premium tax | T99 | T99 | T99 | T99 | T99 | T99 |
| f. Local deposits franchise tax | T01 | T01 | T01 | T01 | T01 | T01 |
| g. Payments in lieu of taxes | D30 | D30 | D30 | D30 | D30 | D30 |
| h. Other - Specify <i>z</i> | T_ | T_ | T_ | T_ | T_ | T_ |
| Public Service Co.'s | | 48,561 | | | | |
| h. Subtotal Taxes → | | 813,975 | | | | |
| 2. Licenses, permits, and fees | T40 | T40 | T40 | T40 | T40 | T40 |
| a. Occupation licenses | | | | | | |
| (1) Payroll | \$ | \$ 1,539,140 | \$ | \$ | \$ | \$ |
| (2) Net profits | T99 | T99 | T99 | T99 | T99 | T99 |
| | | 249,197 | | | | |
| b. Business licenses | T99 | T99 | T99 | T99 | T99 | T99 |
| c. Auto stickers | T24 | T24 | T24 | T24 | T24 | T24 |
| d. Alcoholic beverage licenses | T10 | T10 | T10 | T10 | T10 | T10 |
| | | 1,900 | | | | |

Part IV - CITY REVENUE - Continued

| Revenue source
(a) | GOVERNMENTAL FUND TYPES | | | | | |
|---|--|---------------------|-----|-----|-----|-----|
| | *Fee, rate,
or amount
charged
(b) | General fund
(c) | (d) | (e) | (f) | (g) |
| 2. Licenses, permits,
and fees - Continued | T99 | T99 | T99 | T99 | T99 | T99 |
| e. Taxi fees | \$ | \$ | \$ | \$ | \$ | \$ |
| f. Coin operated
machine licenses | T99 | T99 | T99 | T99 | T99 | T99 |
| g. Animal licenses | T99 | A89 | A89 | A89 | A89 | A89 |
| h. Building, electrical,
and plumbing
permits | T99 | T99 | T99 | T99 | T99 | T99 |
| i. Electrical contractors'
licenses | T99 | T99 | T99 | T99 | T99 | T99 |
| j. Planning and zoning
permits and fees | A89 | A89 | A89 | A89 | A89 | A89 |
| k. Development impact
fees | T99 | T99 | T99 | T99 | T99 | T99 |
| l. Unloading fees | T99 | T99 | T99 | T99 | T99 | T99 |
| m. Building, electrical,
plumbing, and
natural gas
inspections | T99 | T99 | T99 | T99 | T99 | T99 |
| n. Franchise fees | T15 | T15 | T15 | T15 | T15 | T15 |
| (1) Cable T.V. | T15 | T15 | T15 | T15 | T15 | T15 |
| (2) Electric | T15 | T15 | T15 | T15 | T15 | T15 |
| (3) Natural gas | T15 | T15 | T15 | T15 | T15 | T15 |
| (4) Telephone | T15 | T15 | T15 | T15 | T15 | T15 |
| (5) Water | T15 | T15 | T15 | T15 | T15 | T15 |
| (6) Other fran-
chise fees | T15 | T15
49,769 | T15 | T15 | T15 | T15 |
| o. Other - Specify <input checked="" type="checkbox"/> | T_ | T_ | T_ | T_ | T_ | T_ |
| <i>Privilege License fee</i> | | 7,100 | | | | |
| p. Subtotal Licenses,
Permits, and Fees | | 1,847,106 | | | | |
| 3. Intergovernmental
revenue | C46 | C46 | C46 | C46 | C46 | C46 |
| a. Muncpal road aid | \$ | \$ | \$ | \$ | \$ | \$ |
| b. Local government
economic assistance | C89 | C89
3,124 | C89 | C89 | C89 | C89 |
| c. Police pay incentive | C89 | C89
45,607 | C89 | C89 | C89 | C89 |
| d. Firefighters pay
incentive | C89 | C89
56,333 | C89 | C89 | C89 | C89 |
| e. Fire equipment grant | C89 | C89 | C89 | C89 | C89 | C89 |
| f. Base court revenue | C89 | C89
4,169 | C89 | C89 | C89 | C89 |

Part IV - CITY REVENUE - Continued

| Revenue source
(a) | GOVERNMENTAL FUND TYPE | | | | | |
|--|--------------------------------------|----------------------------------|-----|-----|-----|-----|
| | *Fee, rate, or amount charged
(b) | General fund
(c) | (d) | (e) | (f) | (g) |
| 3. Intergovernmental - Continued | C89 | C89 | C89 | C89 | C89 | C89 |
| g. Area development fund grant | \$ | \$ | \$ | \$ | \$ | \$ |
| h. Community development block grant | C50 | C50 | C50 | C50 | C50 | C50 |
| i. Other from county | D89 | D89 | D89 | D89 | D89 | D89 |
| j. Other from local governments or special districts | D89 | D89 | D89 | D89 | D89 | D89 |
| k. Other from state government | C89 | C89 | C89 | C89 | C89 | C89 |
| l. Other from Federal Government | B89 | B89 | B89 | B89 | B89 | B89 |
| m. Subtotal Intergovernmental Revenue | | 34,882
1,045,323
1,189,323 | | | | |
| 4. Service charges | A60 | A60 | A60 | A60 | A60 | A60 |
| a. Parking meters | \$ | \$ | \$ | \$ | \$ | \$ |
| b. Parking facilities | A60 | A60 | A60 | A60 | A60 | A60 |
| c. Impounded vehicles | A89 | A89 | A89 | A89 | A89 | A89 |
| d. Parks and recreation receipts | A61 | A61 | A61 | A61 | A61 | A61 |
| e. Solid waste collection and disposal | A81 | A81 | A81 | A81 | A81 | A81 |
| f. Ambulance runs | A89 | A89 | A89 | A89 | A89 | A89 |
| g. Fire protection | A89 | A89 | A89 | A89 | A89 | A89 |
| h. Rental income | U40 | U40 | U40 | U40 | U40 | U40 |
| i. Transit authority | A94 | A94 | A94 | A94 | A94 | A94 |
| j. Airport revenue | A01 | A01 | A01 | A01 | A01 | A01 |
| K. Special assessments | U01 | U01 | U01 | U01 | U01 | U01 |
| l. Police arrest fees | A89 | A89 | A89 | A89 | A89 | A89 |
| m. Other - Specify | | | | | | |
| n. Subtotal Service Charges | | 335,253 | | | | |
| 5. Other | U99 | U99 | U99 | U99 | U99 | U99 |
| a. Parking violations | \$ | \$ 315 | \$ | \$ | \$ | \$ |
| b. Fines and forfeitures | U99 | U99 | U99 | U99 | U99 | U99 |
| c. Penalties and interest | T01 | T01 | T01 | T01 | T01 | T01 |
| d. Sale of forfeit property | T01 | T01 | T01 | T01 | T01 | T01 |
| e. Sale of surplus property | A89 | A89 | A89 | A89 | A89 | A89 |

Part IV - CITY REVENUE - Continued

| Revenue source
(a) | GOVERNMENTAL FUND TYPES | | | | | |
|--|--------------------------------------|---------------------|-----|-----|-----|-----|
| | *Fee, rate, or amount charged
(b) | General fund
(c) | (d) | (e) | (f) | (g) |
| 5. Other - Continued | U11 | U11 | U11 | U11 | U11 | U11 |
| f. Sale of real property | \$ | \$ | \$ | \$ | \$ | \$ |
| g. Donations | U99 | U99 | U99 | U99 | U99 | U99 |
| h. Interest earned on investments | U20 | 111,224 | U20 | U20 | U20 | U20 |
| i. Other - Specify <input checked="" type="checkbox"/>
Insurance Claims
Misc. | | 18,599
61,778 | | | | |
| j. Subtotal Other → | \$ | \$ 196,656 | \$ | \$ | \$ | \$ |
| 6. TOTAL CITY REVENUE → | \$ | \$ 4,382,313 | \$ | \$ | \$ | \$ |

Part V - CITY TRANSFERS AND PROCEEDS FROM LONG TERM DEBT

| Revenue source
(a) | General fund
(b) | Other - Specify <input checked="" type="checkbox"/>
(c) | Other - Specify <input checked="" type="checkbox"/>
(d) | Other - Specify <input checked="" type="checkbox"/>
(e) | Other - Specify <input checked="" type="checkbox"/>
(f) | Other - Specify <input checked="" type="checkbox"/>
(g) |
|---|---------------------|--|--|--|--|--|
| 1. Transfers | | | | | | |
| a. In | \$ | \$ | \$ | \$ | \$ | \$ |
| b. Out | | | | | | |
| c. NET TRANSFERS | | | | | | |
| 2. Proceeds from Long term debt | | | | | | |
| a. Infrastructure authority loans | | | | | | |
| b. Kentucky Development Finance Authority loan | | | | | | |
| c. Kentucky Environmental Protection Agency loan | | | | | | |
| d. Farmers Home Administration loan | | | | | | |
| e. Kentucky League of Cities leases | | | | | | |
| f. Bonds issued | | | | | | |
| g. Other - Specify <input checked="" type="checkbox"/> | | | | | | |
| h. TOTAL CITY LONG TERM DEBT → | | | | | | |

Part VI - CONTACT INFORMATION (If NOT reported on Utility, F-65)

Any Agency, Board, or Commission that receives any funding from or in behalf of the local government but operates on an autonomous or semi-autonomous basis - usually utility boards.

| | | | |
|-------------------------------|-------|----------|-------------------------------|
| Name of Agency/Contact person | | | |
| Address (Street and number) | | | |
| City | State | ZIP Code | Telephone (Include area code) |
| Name of contact | | | |
| Address (Street and number) | | | |
| City | State | ZIP Code | Telephone (Include area code) |

Part VII - GENERAL FUND EXPENDITURES

| Expenditure account
(a) | Central government
(b) | Community development
(c) | Parks and recreation
(d) | Social services
(e) | Financial administration
(f) | Legal
(g) |
|--|---------------------------|------------------------------|-----------------------------|------------------------|---------------------------------|--------------|
| 1. Personal services | | | | | | |
| a. Salaries and wages | \$ 140,856 | \$ | \$ | \$ | \$ | \$ |
| b. Pensions | 9,511 | | | | | |
| c. Life insurance | | | | | | |
| d. Health insurance | 16,546 | | | | | |
| e. FICA | 10,070 | | | | | |
| f. Workers Compensation insurance | 905 | | | | | |
| g. Unemployment insurance | | | | | | |
| h. Other - Specify
Bonus
Senior Citizens
Joint Planning | 275
25,000
23,850 | | | | | |
| i. Subtotal Personal Services → | E29
227,013 | E50 | E61 | E79 | E23 | E25 |

Part VII - GENERAL FUND EXPENDITURES - Continued

| Expenditure account
(a) | Central government
(b) | Community development
(c) | Parks and recreation
(d) | Social services
(e) | Financial administration
(f) | Legal
(g) |
|--|-----------------------------------|------------------------------|-----------------------------|------------------------|---------------------------------|--------------|
| 2. Contractual services | | | | | | |
| a. Advertising and printing | \$ 7,223 | \$ | \$ | \$ | \$ | \$ |
| b. Professional services | 107,097 | | | | | |
| c. Maintenance and repairs | 4,696 | | | | | |
| d. Utilities and telephone | 3,469 | | | | | |
| e. Rent and leases | | | | | | |
| f. Other insurance and bonds | 8,224 | | | | | |
| g. PVA assessment cost | | | | | | |
| h. Landfill | | | | | | |
| i. Other - Specify \checkmark
Ordinances
Airport Chamber Commerce Fireworks | 809
12,759 | | | | | |
| j. Subtotal Contractual Services \rightarrow | E29
144,277 | E50 | E61 | E79 | E23 | E25 |
| 3. Materials and supplies | | | | | | |
| a. Supplies | \$ 9,702 | \$ | \$ | \$ | \$ | \$ |
| b. Motor fuels | | | | | | |
| c. Other - Specify \checkmark
License Refund | 7,907 | | | | | |
| d. Subtotal Materials and Supplies \rightarrow | E29
17,609 | E50 | E61 | E79 | E23 | E25 |
| 4. Other | | | | | | |
| a. Dues and subscriptions | \$ 1,324 | \$ | \$ | \$ | \$ | \$ |
| b. Travel and training | 8,095 | | | | | |
| c. Court judgements | | | | | | |
| d. Hospital expenses | | | | | | |
| e. Grants and donations | | | | | | |
| f. Other - Specify \checkmark
Parking/Clothing
Misc.
Museum, Picnic Centers
Community Action | 2,889
4,717
9,188
20,000 | | | | | |
| g. Subtotal Other \rightarrow | E29
46,213 | E50 | E61 | E79 | E23 | E25 |

Remarks

Part VII - GENERAL FUND EXPENDITURES - Continued

| Expenditure account
(a) | Central government
(b) | Community development
(c) | Parks and recreation
(d) | Social services
(e) | Finance administration
(f) | Legal
(g) |
|--|---------------------------|------------------------------|-----------------------------|------------------------|-------------------------------|--|
| 5. Capital outlay | G29 | G50 | G61 | G79 | G23 | G25 |
| a. Equipment | \$34,843 | \$ | \$ | \$ | \$ | \$ |
| b. Passenger vehicles | G29 | G50 | G61 | G79 | G23 | G25 |
| c. Land | G29 | G50 | G61 | G79 | G23 | G25 |
| d. Buildings and structures | F29
39,499 | F50 | F61 | F79 | F23 | F25 |
| e. Infrastructure additions | F31 | F50 | F61 | F79 | F23 | F25 |
| f. Infrastructure maintenance and repair | E31 | E50 | E50 | E79 | E23 | E25 |
| g. Other - Specify ↗ | --- | _50 | _61 | _79 | _23 | _25 |
| Hazard Mitigation Buy-out | 1,050,064 | | | | | |
| h. Subtotal Capital Outlay → | 1,124,406 | | | | | |
| 6. Debt service | NE | NE | NE | NE | NE | NE |
| a. Principal payments | | | | | | |
| b. Interest payments | 189 | 189 | 189 | 189 | 189 | 189 |
| c. Subtotal Debt Service → | | | | | | |
| 7. TOTAL EXPENDITURES → | 1,559,518 | | | | | |
| Expenditure account
(a) | Police
(b) | Fire
(c) | Ambulance
(d) | Streets
(e) | Solid waste
(f) | Other - Specify ↗
Public Works
(g) |
| 1. Personal services | | | | | | |
| a. Salaries and wages | \$592,146 | \$430,644 | \$ | \$171,834 | \$ | \$141,315 |
| b. State incentive pay | 46,169 | 47,743 | | | | |
| c. Pensions | 103,185 | 87,947 | | 14,261 | | 10,590 |
| d. Life insurance | | | | | | |
| e. Health insurance | 78,667 | 69,085 | | 37,430 | | 24,272 |
| f. FICA | 45,354 | 33,773 | | 12,499 | | 10,293 |
| g. Workers Compensation insurance | 12,591 | 15,674 | | 4,392 | | 10,215 |
| h. Unemployment insurance | | | | | | |
| i. Other - Specify ↗
Bonus
Other | 1,225
1,665 | 900 | | 500 | | 400 |
| j. Subtotal Personal service → | E62
881,002 | E24
685,766 | E32 | E44
240,916 | E81 | E
197,085 |

Part VII - GENERAL FUND EXPENDITURES - Continued

| Expenditure account
(a) | Police
(b) | Fire
(c) | Ambulance
(d) | Streets
(e) | Solid waste
(f) | Other - Specify <input checked="" type="checkbox"/>
<u>Public Works</u>
(g) |
|--|------------------|-------------------|------------------|------------------|--------------------|---|
| 2. Contractual services | | | | | | |
| a. Advertising and printing | \$ | \$ | \$ | \$ | \$ | \$ |
| b. Professional services | | | | | | 1,785 |
| c. Uniform allowance/rental | 7,319 | 4,808 | | 5,766 | | 3,316 |
| d. Maintenance and repairs | 16,508 | 5,949 | | 36,755 | | 33,005 |
| e. Utilities and telephone | 20,251 | 3,710 | | 57,444 | | 12,841 |
| f. Rent and leases | 3,633 | | | 6,234 | | |
| g. Other insurance and bonds | 22,112 | 11,375 | | 7,171 | | 20,301 |
| h. Other ^{other} Paging System | 2,222 | 2,300 | | 839 | | |
| i. Other - Specify <input checked="" type="checkbox"/>
Snow Removal
Mowing/Salt
Maintenance Service | 8,824 | 2,917 | | 10,182 | | 1,930 |
| j. Subtotal Contractual service → | E62
80,869 | E24
31,059 | E32 | E44
124,391 | E81 | E__
73,178 |
| 3. Materials and supplies | | | | | | |
| a. Supplies | \$ 15,643 | \$ 4,664 | \$ | \$ 48,020 | \$ | \$ 21,914 |
| b. Motor fuels | 10,720 | 2,874 | | 8,478 | | 10,428 |
| c. Other - Specify <input checked="" type="checkbox"/>
Washing Cruisers
Law equipment/Fire equipment | 1,170
5,960 | 11,837 | | | | |
| d. Subtotal Materials and Supplies → | E62
33,493 | E24
19,375 | E32 | E44
56,498 | E81 | E__
32,342 |
| 4. Other | | | | | | |
| a. Dues and subscriptions | \$ | \$ | \$ | \$ | \$ | \$ |
| b. Travel and training | 8,354 | | | | | |
| c. Other - Specify <input checked="" type="checkbox"/>
Recycling/Tipping
Police Funds
Other | 144 | 10,144 | | 255 | | 84,325 |
| d. Subtotal Other → | E62
8,498 | E24
10,144 | E32 | E44
255 | E81 | E__
84,325 |
| 5. Capital outlay | | | | | | |
| a. Equipment | G62
\$ 23,726 | G24
\$ 235,688 | G32
\$ | G44
\$ 35,983 | G81
\$ | G__
\$ 47,471 |
| b. Passenger vehicles | G62
42,971 | G24 | G32 | G44 | G81 | G__ |
| c. Land | G62 | G24 | G32 | G44 | G81 | G__ |
| d. Buildings and structures | F62 | F24 | F32 | F44 | F81 | F__ |
| e. Infrastructure additions | | | | | | |
| f. Infrastructure maintenance and repairs | | | | | | |
| g. Other - Specify <input checked="" type="checkbox"/> | _ 62 | _ 24 | _ 32 | _ 44 | _ 81 | --- |
| h. Subtotal Capital Outlay → | 66,697 | 235,688 | | 35,983 | | 47,471 |

Part VII - GENERAL FUND EXPENDITURES - Continued

| Expenditure account
(a) | Police
(b) | Fire
(c) | Ambulance
(d) | Streets
(e) | Solid waste
(f) | Other -
Specify <input checked="" type="checkbox"/> <u>Public Works</u>
(g) |
|--------------------------------|------------------|----------------|------------------|----------------|--------------------|---|
| 6. Debt service | NE | NE | NE | NE | NE | NE |
| a. Principal payments | \$ | \$ | \$ | \$ | \$ | \$ |
| b. Interest payments | 189 | 189 | 189 | 189 | 189 | 189 |
| c. Subtotal Debt service → | | | | | | |
| 7. TOTAL EXPENDITURES → | 1,070,559 | 982,032 | | 458,043 | | 434,401 |

Part VIII - OTHER FUND EXPENDITURES

| Expenditure account
(a) | (b) | (c) | (d) | (e) | (f) | (g) |
|--|-----|-----|-----|-----|-----|-----|
| 1. Personal services | | | | | | |
| a. Salaries and wages | \$ | \$ | \$ | \$ | \$ | \$ |
| b. Pensions | | | | | | |
| c. Life insurance | | | | | | |
| d. Health insurance | | | | | | |
| e. FICA | | | | | | |
| f. Workers Compensation insurance | | | | | | |
| g. Unemployment insurance | | | | | | |
| h. Other - Specify <input checked="" type="checkbox"/> | | | | | | |
| i. Subtotal Personal Services → | E | E | E | E | E | E |
| 2. Contractual services | | | | | | |
| a. Advertising and printing | \$ | \$ | \$ | \$ | \$ | \$ |
| b. Professional services | | | | | | |
| c. Maintenance and repairs | | | | | | |
| d. Utilities and telephone | | | | | | |
| e. Rent and leases | | | | | | |
| f. Other insurance and bonds | | | | | | |
| g. Landfill charges | | | | | | |
| h. Other - Specify <input checked="" type="checkbox"/> | | | | | | |
| i. Subtotal Contractual Services → | E | E | E | E | E | E |

Part VIII - OTHER FUND EXPENDITURES - Continued

| Expenditure account

(a) | (b) | (c) | (d) | (e) | (f) | (g) |
|--|-----|-----|-----|-----|-----|-----|
| 3. Materials and supplies | | | | | | |
| a. Supplies | \$ | \$ | \$ | \$ | \$ | \$ |
| b. Motor fuels | | | | | | |
| c. Other - Specify <input checked="" type="checkbox"/> | | | | | | |
| d. Subtotal Materials and Supplies → | E | E | E | E | E | E |
| 4. Other | | | | | | |
| a. Dues and subscriptions | \$ | \$ | \$ | \$ | \$ | \$ |
| b. Travel and training | | | | | | |
| c. Court judgements | | | | | | |
| d. Hospital expenses | | | | | | |
| e. Grants and donations | | | | | | |
| f. Other - Specify <input checked="" type="checkbox"/> | | | | | | |
| g. Subtotal Other → | E | E | E | E | E | E |
| 5. Capital outlay | G | G | G | G | G | G |
| a. Equipment | \$ | \$ | \$ | \$ | \$ | \$ |
| b. Passenger vehicles | G | G | G | G | G | G |
| c. Land | G | G | G | G | G | G |
| d. Buildings and structures | F | F | F | F | F | F |
| e. Infrastructure additions | F | F | F | F | F | F |
| f. Infrastructure maintenance and repair | E | E | E | E | E | E |
| g. Other - Specify <input checked="" type="checkbox"/> | --- | - | - | - | - | - |
| h. Subtotal Capital Outlay → | | | | | | |
| 6. Debt service | NE | NE | NE | NE | NE | NE |
| a. Principal payments | | | | | | |
| b. Interest payments | I | I | I | I | I | I |
| c. Subtotal Debt Service → | | | | | | |
| 7. TOTAL OTHER FUND EXPENDITURES → | | | | | | |

Part IX - PERSONNEL EXPENDITURES

Report the total expenditure for salaries and wages from all funds. Amount - Omit cents
Z00
\$ 1,476,795

Part X - CASH AND INVESTMENTS AT THE END OF THE FISCAL YEAR

GOVERNMENT FUNDS

| Cash and securities
(Do not include employee
retirement funds)
(a) | Unexpended
bond funds
(b) | Bond reserve
funds
(c) | Required
sinking
funds
(d) | Other
restricted
funds
(e) | General
and all other
funds
(f) | TOTAL
(g) |
|--|---------------------------------|------------------------------|-------------------------------------|-------------------------------------|--|--------------|
| 1. Cash and deposits - Cash on hand and demand deposits, CD's, and time or savings deposits | \$ | \$ | \$ | \$ 619,355 | \$ 1,401,086 | \$ 2,020,441 |
| 2. Treasury and other governmental obligations | | | | | | |
| 3. Other securities | | | | | | |
| 4. TOTAL GOVERNMENT FUNDS | W31
\$ | W31
\$ | W01
\$ | W61
\$ 619,355 | W61
\$ 1,401,086 | \$ 2,020,441 |

Remarks

Part XI - INDEBTEDNESS

**Part XII - NEW CAPITAL LEASE AGREEMENTS
OVER \$50,000**

| | | | |
|---|--|----------------------------|--|
| 1. Bond issue title | | 2. Year of issue | |
| 3. Bond proceeds intended use | | | |
| 4. Bond type
1 <input type="checkbox"/> General obligation 3 <input type="checkbox"/> Utility revenue
2 <input type="checkbox"/> Public property corporation 4 <input type="checkbox"/> Other - Specify <u> </u> | | | |
| 5. Call provisions
1 <input type="checkbox"/> Yes - What intervals? _____
2 <input type="checkbox"/> No | | | |
| 6. Original issue principal \$ | | 7. Average interest rate % | |
| 8. BOND RATING | | | |
| a. S and P | | b. Moody's | |
| 9. Source of debt service | | | |
| 10. Fund responsible for debt service | | | |

| | | |
|---|-------------------------------|--|
| 1. Item leased | | |
| 2. Date of initial lease | 3. Length of lease - In years | |
| 4. Original lease principal | 5. Average interest rate % | |
| 6. Fund responsible for lease payments | | |
| 7. Source of revenue for lease payments | | |
| 8. Identity of lessor | | |

| Debt service requirements (a) | Principal (b) | Interest (c) | Total principal and interest (d) |
|-------------------------------|---------------|--------------|----------------------------------|
| 11. Amount paid in FY 1998-99 | | | |

| Lease payment requirements (a) | Principal (b) | Interest (c) | Total principal and interest (d) |
|--------------------------------|---------------|--------------|----------------------------------|
| 9. Amount paid in FY 1998-99 | | | |

| FUTURE PAYMENTS | | | |
|--|-----------|----------|------------------------------|
| Year | Principal | Interest | Total principal and interest |
| 12. FY 1999-00 | | | |
| 13. FY 2000-01 | | | |
| 14. FY 2001-02 | | | |
| 15. FY 2002-2003 | | | |
| 16. FY 2003-04 | | | |
| Cumulative years | | | |
| 17. 2004-2008 | | | |
| 18. 2009-2013 | | | |
| 19. 2014-2018 | | | |
| 20. 2019-2023 | | | |
| 21. 2024-2038 | | | |
| 22. TOTAL OUT-STANDING (Sum of lines 12 through 21) | | | |

| FUTURE PAYMENTS | | | |
|--|-----------|----------|------------------------------|
| Year | Principal | Interest | Total principal and interest |
| 10. FY 1999-00 | | | |
| 11. FY 2000-01 | | | |
| 12. FY 2001-02 | | | |
| 13. FY 2002-2003 | | | |
| 14. FY 2003-04 | | | |
| Cumulative years | | | |
| 15. 2004-2008 | | | |
| 16. 2009-2013 | | | |
| 17. 2014-2018 | | | |
| 18. 2019-2023 | | | |
| 19. 2024-2038 | | | |
| 20. TOTAL OUT-STANDING (Sum of lines 10 through 19) | | | |

Remarks

FORM F-65(KY-6)
(8-13-99)

COMMONWEALTH OF KENTUCKY



**ENTERPRISE FUNDS
UNIFORM FINANCIAL
INFORMATION REPORT
FISCAL YEAR 1998-99**

18 2 049 002 5 01
City of Cynthiana
PO Box 67
Cynthiana, KY 41031

**RETURN
TO**

**Department for Local Government
1024 Capital Center Drive, Suite 340
Frankfort, KY 40601**

(Please correct any error in name, address, and ZIP Code)

GENERAL INSTRUCTIONS

All information should be provided on a cash basis for the fiscal year beginning July 1, 1998 and ending on June 30, 1999.

On the Tax Rate schedule a rate of 22 and 7/10 cents per \$100 assessed value should be reported .227.

ROUND TO THE NEAREST DOLLAR. DO NOT SHOW CENTS FOR REVENUES OR EXPENDITURES.

Use the blank columns for special funds, including Capital Projects and Debt Service funds. Label the fund at the top of the column. Make copies of the forms if you have more funds than there are columns on a page. If you have more than one Capital Projects fund you may total those funds into ONE Capital Projects reporting column in the Revenue Section and one column in the Expenditure Section. The same procedure may be used for Debt Service Funds.

DO NOT SEND IN THE REVENUE RATE SCHEDULES IF THEY WERE SENT IN LAST YEAR AND THERE WERE NO CHANGES OR ADDITIONS. Send in any changes or additions to any revenue rate schedules.

Report only new debt or lease agreements. **DO NOT COMPLETE THESE SECTIONS AGAIN IF THEY WERE REPORTED LAST YEAR AND THERE WERE NO CHANGES IN THE DEBT OR LEASE AGREEMENTS.**

SEND ONE ORIGINAL AND TWO COPIES OF THE COMPLETED FORM to the Department for Local Government BY MAY 1, 2000.

Note: Data supplied by your city in this report will be used by State and Federal Agencies and public interest groups in Kentucky.

Part I - DATA SUPPLIED BY

| | | | |
|------------------------------|-----------|------------------|-----------|
| Name | Area code | Telephone number | Extension |
| England & Hensley, CPAs | 606 | 231-8678 | |
| Title | Date | | |
| Certified Public Accountants | 12-13-99 | | |

Part II - CERTIFICATION - Completed report must be signed prior to filing.

This is to certify that the data contained in this report are accurate to the best of my knowledge and belief.

| | | | |
|----------------------------|------------|------------------|-----------|
| Signature of official | Title | Date completed | |
| <i>Sharleen M McIlvain</i> | City Clerk | 1/11/2000 | |
| Printed name of official | Area code | Telephone number | Extension |
| Sharleen M McIlvain | 606 | 234-7150 | |

Remarks

Part III - ENTERPRISE FUNDS

| Revenue source | Water | Sewer | | | |
|--|---------------------|-------------------|-----------|-----------|-----------|
| (a) | (b) | (c) | (d) | (e) | (f) |
| 1. Operating revenues | | | | | |
| a. Charges for services | \$ 1,47,238 | \$ 452,750 | \$ | \$ | \$ |
| b. Penalties and interest | | | | | |
| c. Other - Specify <input checked="" type="checkbox"/> Other | 15,973 | 15,58 | | | |
| 2. TOTAL OPERATING REVENUES → | A91
\$ 1,163,211 | A80
\$ 468,318 | A--
\$ | A--
\$ | A--
\$ |
| Operating expenses | Water | Sewer | | | |
| (a) | (b) | (c) | (d) | (e) | (f) |
| 1. Personal services | | | | | |
| a. Salaries and wages | \$ 180,482 | \$ 115,213 | \$ | \$ | \$ |
| b. Pensions | 13,638 | 9,994 | | | |
| c. Life insurance | | | | | |
| d. Health insurance | 27,243 | 23,712 | | | |
| e. FICA | 13,279 | 8,242 | | | |
| f. Worker's Compensation Insurance | 3,828 | 4,722 | | | |
| g. Unemployment insurance | | | | | |
| h. Other - Specify <input checked="" type="checkbox"/> Bonus | 425 | 300 | | | |
| i. Subtotal personal services → | E91
238,895 | E80
162,183 | E-- | E-- | E-- |
| 2. Contractual services | | | | | |
| a. Advertising | \$ | \$ | \$ | \$ | \$ |
| b. Professional services | 2,425 | 15,923 | | | |
| c. Uniforms | 4,005 | 2,467 | | | |
| d. Maintenance and repair | 6,139 | 62,914 | | | |
| e. Wholesale purchase of power/natural gas/water | | | | | |

Part III - ENTERPRISE FUNDS - Continued

| Operating expenses

(a) | Water

(b) | Sewer

(c) | (d) | (e) | (f) |
|---|------------------|------------------|-----|-----|-----|
| 2. Contractual services - Continued | | | | | |
| f. Utilities and telephone | \$ 70,422 | \$ 45,905 | \$ | \$ | \$ |
| g. Rent and leases | | | | | |
| h. Other insurance and bonds | 9,117 | 10,867 | | | |
| i. Testing | 9,677 | 18,953 | | | |
| j. Landfill | | | | | |
| k. Other - Specify <input checked="" type="checkbox"/> Linen Service
Paging
Hauling | 432
468 | 398
29,140 | | | |
| l. Subtotal contractual services → | E91
102,685 | E80
186,567 | E__ | E__ | E__ |
| 3. Materials and supplies | | | | | |
| a. Supplies | \$ 78,784 | \$ 22,008 | \$ | \$ | \$ |
| b. Motor fuels | 1,221 | 2,069 | | | |
| c. Postage | 7,929 | | | | |
| d. Chemicals | 26,839 | 49,873 | | | |
| e. Other - Specify <input checked="" type="checkbox"/> | | | | | |
| f. Subtotal materials and supplies → | E91
114,773 | E80
73,950 | E__ | E__ | E__ |
| 4. Other expenses | | | | | |
| a. Dues and subscriptions | \$ | \$ | \$ | \$ | \$ |
| b. Travel and training | 260 | 813 | | | |
| c. Court judgements | E 89 | E89 | E__ | E__ | E__ |
| d. Sales and utility taxes | E91 | E80 | E__ | E__ | E__ |
| e. Amortization | NE | NE | NE | NE | NE |
| f. Other - Specify <input checked="" type="checkbox"/> | E91 | E80 | E__ | E__ | E__ |
| MISC. | 393 | | | | |
| g. Subtotal other expenses → | 12,473 | 813 | | | |
| 5. TOTAL OPERATING EXPENSES → | 468,826 | 423,513 | | | |

Part III - ENTERPRISE FUNDS - Continued

| Category
(a) | Water
(b) | Sewer
(c) | (d) | (e) | (f) |
|---|------------------|------------------|----------|----------|----------|
| 1. Depreciation | NR
\$ 285,393 | NR
\$ 156,287 | NR
\$ | NR
\$ | NR
\$ |
| 2. Nonoperating revenue | U20 | U20 | U20 | U20 | U20 |
| a. Interest earned | \$ 50,446 | \$ | \$ | \$ | \$ |
| b. Other - Specify \checkmark | A91 | A80 | A-- | A-- | A-- |
| 3. TOTAL NONOPERATING REVENUE \rightarrow | 50,446 | | | | |
| 4. Nonoperating expense | I91 | I89 | I-- | I-- | I-- |
| a. Interest expense | \$ 252,711 | \$ | \$ | \$ | \$ |
| b. Other - Specify \checkmark | | | | | |
| 5. TOTAL NONOPERATING EXPENSES \rightarrow | 252,711 | | | | |
| 6. Transfers | | | | | |
| a. In | \$ | \$ | \$ | \$ | \$ |
| b. Out | | | | | |
| 7. NET TRANSFERS | | | | | |

Part IV - CHANGES IN CASH FLOW

| Category
(a) | Water
(b) | Sewer
(c) | Water & Sewer
(d) | (e) | (f) |
|---|--------------|--------------|----------------------|-----|-----|
| 1. Net cash provided from operating activities \rightarrow | \$ | \$ | \$ 743,034 | \$ | \$ |
| 2. Cash flow from the following - | | | | | |
| a. Capital financing | | | | | |
| b. Principal payments | | | < 385,000 > | | |
| c. Interest payments | | | < 263,299 > | | |
| d. Purchase of property, plant, and equipment | | | | | |
| e. Other - Specify \checkmark
Acquisition & Constr.
of Capital Assets | | | < 76,425 > | | |
| Total net cash provided from capital financing \rightarrow | | | < 724,724 > | | |
| 3. Net cash provided from noncapital financing \rightarrow | | | | | |
| 4. Net cash provided from investing activity \rightarrow | | | 38,477 | | |

Part V - CASH AND INVESTMENTS AT THE END OF THE FISCAL YEAR

| Cash and securities
(Do not include employee
retirement funds)
(a) | Unexpended
bond funds
(b) | Bond reserve
funds
(c) | Required
sinking
funds
(d) | Other
restricted
funds
(e) | General
and all other
funds
(f) | TOTAL
(g) |
|--|---------------------------------|------------------------------|-------------------------------------|-------------------------------------|--|--------------|
| A. Water | | | | | | |
| 1. Cash and deposits - Cash on hand and demand deposits, CD's, and time or savings deposits | \$ | \$ | \$ | \$ | \$ | \$ |
| 2. Treasury and other governmental obligations | | | | | | |
| 3. Other securities | | | | | | |
| 4. TOTAL WATER FUNDS → | W31
\$ | W31
\$ | W01
\$ | W61
\$ | W61
\$ | \$ |
| B. Sewer | | | | | | |
| 1. Cash and deposits - Cash on hand and demand deposits, CD's, and time or savings deposits | \$ | \$ | \$ | \$ | \$ | \$ |
| 2. Treasury and other governmental obligations | | | | | | |
| 3. Other securities | | | | | | |
| 4. TOTAL SEWER FUNDS → | W31
\$ | W31
\$ | W01
\$ | W61
\$ | W61
\$ | \$ |
| C. Water & Sewer | | | | | | |
| 1. Cash and deposits - Cash on hand and demand deposits, CD's, and time or savings deposits | \$ | \$ | \$ | \$ | \$ 224,995 | \$ 224,995 |
| 2. Treasury and other governmental obligations | | | 255,493 | 1,040,850 | | 1,296,343 |
| 3. Other securities | | | | | | |
| 4. TOTAL FUNDS → | W31
\$ | W31
\$ | W01
\$ 255,493 | W61
\$ 1,040,850 | W61
\$ 224,995 | \$ 1,521,338 |
| D. | | | | | | |
| 1. Cash and deposits - Cash on hand and demand deposits, CD's, and time or savings deposits | \$ | \$ | \$ | \$ | \$ | \$ |
| 2. Treasury and other governmental obligations | | | | | | |
| 3. Other securities | | | | | | |
| 4. TOTAL FUNDS → | W31
\$ | W31
\$ | W01
\$ | W61
\$ | W61
\$ | \$ |
| E. | | | | | | |
| 1. Cash and deposits - Cash on hand and demand deposits, CD's, and time or savings deposits | \$ | \$ | \$ | \$ | \$ | \$ |
| 2. Treasury and other governmental obligations | | | | | | |
| 3. Other securities | | | | | | |
| 4. TOTAL FUNDS → | W31
\$ | W31
\$ | W01
\$ | W61
\$ | W61
\$ | \$ |
| Remarks | | | | | | |

Part VI - PERSONNEL EXPENDITURES

Amount - Omit cents

Z00

Report the total expenditure for salaries and wages from all funds. →

\$ 295,695

Part VII - NEW INDEBTEDNESS

Part VIII - NEW CAPITAL LEASE AGREEMENTS OVER \$50,000

1. Bond issue title _____ 2. Year of issue _____

3. Bond proceeds intended use _____

4. Bond type
 General obligation Utility revenue
 Public property corporation Other - Specify z

5. Call provisions
 Yes - What intervals? _____
 No

6. Original issue principal \$ _____ 7. Average interest rate _____ %

8. BOND RATING
 a. S and P _____ b. Moody's _____

9. Source of debt service _____

10. Fund responsible for debt service _____

1. Item leased _____

2. Date of initial lease _____ 3. Length of lease - In years _____

4. Original lease principal _____ 5. Average interest rate _____ %

6. Fund responsible for lease payments _____

7. Source of revenue for lease payments _____

8. Identity of lessor _____

| Debt service requirements (a) | Principal (b) | Interest (c) | Total principal and interest (d) | Lease payment requirements (a) | Principal (b) | Interest (c) | Total principal and interest (d) |
|-------------------------------|---------------|--------------|----------------------------------|--------------------------------|---------------|--------------|----------------------------------|
| 11. Amount paid in FY 1998-99 | | | | 9. Amount paid in FY 1998-99 | | | |

FUTURE PAYMENTS

| | | | |
|--|--|--|--|
| 12. FY 1999-00 | | | |
| 13. FY 2000-01 | | | |
| 14. FY 2001-02 | | | |
| 15. FY 2002-2003 | | | |
| 16. FY 2003-04 | | | |
| Cumulative years | | | |
| 17. 2004-2008 | | | |
| 18. 2009-2013 | | | |
| 19. 2014-2018 | | | |
| 20. 2019-2023 | | | |
| 21. 2024-2038 | | | |
| 22. TOTAL OUT-STANDING (Sum of lines 12 through 21) | | | |

FUTURE PAYMENTS

| | | | |
|--|--|--|--|
| 10. FY 1999-00 | | | |
| 11. FY 2000-01 | | | |
| 12. FY 2001-02 | | | |
| 13. FY 2002-2003 | | | |
| 14. FY 2003-04 | | | |
| Cumulative years | | | |
| 15. 2004-2008 | | | |
| 16. 2009-2013 | | | |
| 17. 2014-2018 | | | |
| 18. 2019-2023 | | | |
| 19. 2024-2038 | | | |
| 20. TOTAL OUT-STANDING (Sum of lines 10 through 19) | | | |

COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

RECEIVED

JAN 21 2000

PUBLIC SERVICE
COMMISSION

In the Matter of:

PROPOSED ADJUSTMENT OF THE)
WHOLESALE WATER SERVICE RATES OF) ADMINISTRATIVE
THE CITY OF CYNTHIANA, KENTUCKY) CASE NO. 99-300

SUPPLEMENTAL RESPONSE OF CITY OF CYNTHIANA
TO COMMISSION ORDER DATED JANUARY 4, 2000

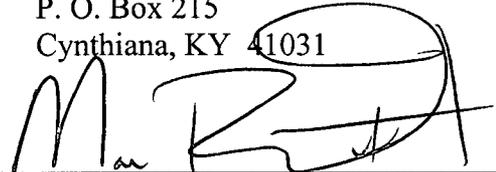
Bruce F. Clark
Mark R. Overstreet
Michele M. Whittington
STITES & HARBISON
421 West Main Street
P.O. Box 634
Frankfort, KY 40602-0634
Telephone: (502) 223-3477
COUNSEL FOR CITY OF CYNTHIANA

CERTIFICATE OF SERVICE

I hereby certify that a copy of this Supplemental Response of City of Cynthiana to Commission Order dated January 4, 2000 was served by first class mail, postage prepaid, upon the following parties of record, this 21st day of January, 2000.

Dorothy Jo Mastin, Esq.
9 South Walnut Street
Cynthiana, KY 41031

William R. Toadvine, President
Harrison County Water Association, Inc.
P. O. Box 215
Cynthiana, KY 41031



Mark R. Overstreet

CITY OF CYNTHIANA

REQUEST:

Refer to Cynthiana's Response to the Commission's Order of November 29, 1999, Item 9(a). Provide a schedule that compares Cynthiana's allocation of salaries and payroll costs to each city division for each month of the period from July 1, 1999 through December 31, 1999.

RESPONSE:

The payroll cost allocation is attached.

Witness: Charleen McIlvain

ALLOCATION OF CITY OF CYNTHIANA SALARIES AND PAYROLL COSTS TO CITY DIVISIONS FOR

| AFFAIRS | Month | Gross | | | FICA | | | Retirement | | | Life Insurance | | |
|--------------|----------|----------|----------|---------|----------|--------|--------|------------|--------|--------|----------------|-------|-------|
| | | Gen Fund | Water | Sewer | Gen Fund | Water | Sewer | Gen Fund | Water | Sewer | Gen Fund | Water | Sewer |
| Dept Totals | July | 2577.42 | 7.54 | 7.54 | 197.17 | 0.58 | 0.58 | 187.64 | 0.58 | 0.55 | 10.76 | 0.02 | |
| | August | 1833.89 | 1054.90 | 0.00 | 140.29 | 80.70 | 0.00 | 133.51 | 80.70 | 0.00 | 8.44 | 2.36 | |
| | Sept | 2589.94 | 241.12 | 30.14 | 198.13 | 18.45 | 2.31 | 188.55 | 18.45 | 2.19 | 10.19 | 0.54 | |
| | October | 2996.83 | 798.71 | 271.26 | 229.26 | 61.10 | 20.75 | 218.17 | 61.10 | 19.75 | 9.20 | 1.19 | |
| | November | 2017.28 | 346.61 | 497.31 | 154.32 | 26.52 | 38.04 | 146.86 | 26.52 | 36.20 | 8.91 | 0.78 | |
| | December | 2137.84 | 421.96 | 301.40 | 163.54 | 32.28 | 23.06 | 155.63 | 32.28 | 21.94 | 9.18 | 0.95 | |
| FINANCE | | | | | | | | | | | | | |
| | | Gross | | | FICA | | | Retirement | | | Life Insurance | | |
| Name | Month | Gen Fund | Water | Sewer | Gen Fund | Water | Sewer | Gen Fund | Water | Sewer | Gen Fund | Water | Sewer |
| Dept Totals | July | 6344.62 | 1469.31 | 1268.83 | 485.36 | 112.40 | 97.07 | 461.89 | 106.97 | 92.37 | 27.08 | 5.82 | 4.1 |
| | August | 6242.98 | 1664.80 | 1633.30 | 477.59 | 127.36 | 124.95 | 454.49 | 121.20 | 118.90 | 25.86 | 6.04 | 5.1 |
| | Sept | 6174.49 | 1549.68 | 1535.68 | 472.35 | 118.55 | 117.48 | 449.50 | 112.82 | 111.80 | 26.19 | 5.84 | 5.1 |
| | October | 9096.65 | 1796.58 | 1746.70 | 695.89 | 137.44 | 133.62 | 662.24 | 130.79 | 127.16 | 30.18 | 6.59 | 6.1 |
| | November | 6143.02 | 1676.77 | 1547.23 | 469.94 | 128.27 | 118.36 | 447.21 | 122.07 | 112.64 | 32.04 | 8.67 | 7.3 |
| | December | 6228.22 | 1626.10 | 1626.10 | 476.46 | 124.40 | 124.40 | 453.41 | 118.38 | 118.38 | 31.05 | 6.08 | 6.0 |
| PUBLIC WORKS | | | | | | | | | | | | | |
| | | Gross | | | FICA | | | Retirement | | | Life Insurance | | |
| Name | Month | Gen Fund | Water | Sewer | Gen Fund | Water | Sewer | Gen Fund | Water | Sewer | Gen Fund | Water | Sewer |
| Dept Totals | July | 8871.53 | 3569.92 | 1328.97 | 678.67 | 273.10 | 101.67 | 645.85 | 259.89 | 96.75 | 35.65 | 13.22 | 5.1 |
| | August | 8539.72 | 5507.47 | 601.65 | 653.29 | 421.32 | 46.03 | 621.69 | 400.94 | 43.80 | 28.26 | 18.51 | 1.8 |
| | Sept | 6747.11 | 8522.07 | 710.97 | 516.15 | 651.94 | 54.39 | 491.19 | 620.41 | 51.76 | 20.98 | 25.49 | 2.1 |
| | October | 12836.99 | 12289.98 | 1737.90 | 982.03 | 937.89 | 132.95 | 934.53 | 892.53 | 126.52 | 34.36 | 26.94 | 3.50 |
| | November | 11584.73 | 1748.91 | 2252.02 | 886.23 | 133.79 | 172.28 | 843.37 | 127.32 | 163.95 | 44.64 | 6.46 | 8.30 |
| | December | 12769.00 | 3025.37 | 684.41 | 976.83 | 231.44 | 52.36 | 929.58 | 220.25 | 49.83 | 47.95 | 9.55 | 1.90 |

| CITY OF CYNTHIANA | | | | | | | | | | |
|-----------------------------|----------|--------|------------|----------------|------------------|--------------|----------|----------|--|--|
| TOTAL EMPLOYEE COST - WATER | | | | | | | | | | |
| AFFAIRS | | | | | | | | | | |
| Month | Gross | FICA | Retirement | Life Insurance | Health Insurance | Workers Comp | Uniforms | Total | | |
| July | 7.54 | 0.58 | 0.58 | 0.02 | 1.06 | 0.35 | | 10.12 | | |
| August | 1054.90 | 80.70 | 80.70 | 2.36 | 132.93 | 49.26 | | 1400.86 | | |
| Sept | 241.12 | 18.45 | 18.45 | 0.54 | 30.39 | 11.26 | | 320.20 | | |
| October | 798.71 | 61.10 | 61.10 | 1.19 | 67.10 | 37.30 | | 1026.51 | | |
| November | 346.61 | 26.52 | 26.52 | 0.78 | 43.68 | 16.19 | | 460.28 | | |
| December | 421.96 | 32.28 | 32.28 | 0.95 | 53.17 | 19.71 | | 560.34 | | |
| FINANCE | | | | | | | | | | |
| Month | Gross | FICA | Retirement | Life Insurance | Health Insurance | Workers Comp | Uniforms | Total | | |
| July | 1469.31 | 112.40 | 106.97 | 5.82 | 240.86 | 4.85 | 22.46 | 1940.21 | | |
| August | 1664.80 | 127.36 | 121.20 | 6.04 | 282.35 | 5.49 | 23.32 | 2207.25 | | |
| Sept | 1549.68 | 118.55 | 112.82 | 5.84 | 264.96 | 5.11 | 22.52 | 2056.96 | | |
| October | 1796.58 | 137.44 | 130.79 | 6.59 | 327.96 | 5.93 | 25.40 | 2405.29 | | |
| November | 1676.77 | 128.27 | 122.07 | 8.67 | 481.09 | 5.53 | 33.46 | 2422.41 | | |
| December | 1626.10 | 124.40 | 118.38 | 6.08 | 512.83 | 5.37 | 23.43 | 2393.15 | | |
| PUBLIC WORKS | | | | | | | | | | |
| Month | Gross | FICA | Retirement | Life Insurance | Health Insurance | Workers Comp | Uniforms | Total | | |
| July | 3569.92 | 273.10 | 259.89 | 13.22 | 669.37 | 261.68 | 101.98 | 5047.17 | | |
| August | 5507.47 | 421.32 | 400.94 | 18.51 | 1049.62 | 403.70 | 142.78 | 7801.56 | | |
| Sept | 8522.07 | 651.94 | 620.41 | 25.49 | 1418.83 | 624.67 | 196.62 | 11863.40 | | |
| October | 12259.98 | 937.89 | 892.53 | 26.94 | 1578.44 | 898.66 | 207.85 | 16594.44 | | |
| November | 1748.91 | 133.79 | 127.32 | 6.46 | 384.07 | 128.20 | 49.84 | 2528.75 | | |
| December | 3025.37 | 231.44 | 220.25 | 9.55 | 615.26 | 221.76 | 73.68 | 4323.63 | | |

COMMONWEALTH OF KENTUCKY

RECEIVED

BEFORE THE PUBLIC SERVICE COMMISSION

JAN 20 2000

PUBLIC SERVICE
COMMISSION

In the Matter of:

| | | |
|----------------------------------|---|-----------------|
| PROPOSED ADJUSTMENT OF THE |) | |
| WHOLESALE WATER SERVICE RATES OF |) | ADMINISTRATIVE |
| THE CITY OF CYNTHIANA, KENTUCKY |) | CASE NO. 99-300 |

SUPPLEMENTAL RESPONSE OF CITY OF CYNTHIANA
TO HARRISON COUNTY WATER ASSOCIATION'S
SUPPLEMENTAL DATA REQUESTS DATED JANUARY 4, 2000

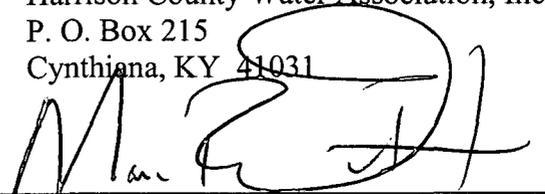
Bruce F. Clark
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421 West Main Street
P.O. Box 634
Frankfort, KY 40602-0634
Telephone: (502) 223-3477
COUNSEL FOR CITY OF CYNTHIANA

CERTIFICATE OF SERVICE

I hereby certify that a copy of this Supplemental Response was served by first class mail, postage prepaid, upon the following parties of record, this 20th day of January, 2000.

Dorothy Jo Mastin, Esq.
9 South Walnut Street
Cynthiana, KY 41031

William R. Toadvine, President
Harrison County Water Association, Inc.
P. O. Box 215
Cynthiana, KY 41031



Mark R. Overstreet

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

RECEIVED

JAN 18 2000

PUBLIC SERVICE
COMMISSION

In the Matter of:

PROPOSED ADJUSTMENT OF THE)
WHOLESALE WATER SERVICE RATES OF) ADMINISTRATIVE
THE CITY OF CYNTHIANA, KENTUCKY) CASE NO. 99-300

RESPONSE OF CITY OF CYNTHIANA
TO HARRISON COUNTY WATER ASSOCIATION'S
SUPPLEMENTAL DATA REQUESTS DATED JANUARY 4, 2000

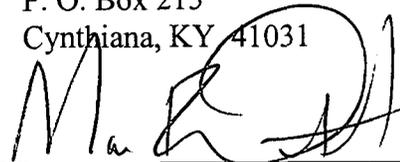
Bruce F. Clark
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421 West Main Street
P.O. Box 634
Frankfort, KY 40602-0634
Telephone: (502) 223-3477
COUNSEL FOR CITY OF CYNTHIANA

CERTIFICATE OF SERVICE

I hereby certify that a copy of this Supplemental Response was served by first class mail, postage prepaid, upon the following parties of record, this 18th day of January, 2000.

Dorothy Jo Mastin, Esq.
9 South Walnut Street
Cynthiana, KY 41031

William R. Toadvine, President
Harrison County Water Association, Inc.
P. O. Box 215
Cynthiana, KY 41031



Mark R. Overstreet

CITY OF CYNTHIANA

REQUEST:

In Response to Request No. 4 (Item No. 4, Sheet 1 of 1), the City responds to the question, "When was the 16" waterline built from the filtration pump to the Bundy tower and for what purpose was the waterline built?" Answer: "1989, to increase pumping efficiency and to allow more water to be stored near the perimeter of the distribution system . . ." The City then noted as witnesses to this answer – Carlos Miller and Joe Lewis of Quest Engineers, Inc. The Water Association seeks the following answers:

- a. Please explain the witnesses' affiliation with said project?
- b. If they were directly involved, please provide documentation and design information for the project?
- c. If they were not, please provide documentation and design information for the project and the name or names of the engineers involved.

RESPONSE:

- a. Neither Mr. Lewis nor Mr. Miller was involved in the design or construction of the project.
- b. Not applicable.
- c. Bob Smallwood, GRW Engineers, Inc., 801 Corporate Drive, Lexington, Kentucky. The requested information, to the extent it is available, will be provided on or before January 21, 2000.

Witness: Joe Lewis, Quest Engineers; Carlos Miller (subparts a and b)

CITY OF CYNTHIANA

REQUEST:

In Response to Request No. 6 (Item No. 6, Sheet 1 of 1), the City's response used the word "seasonably", please clarify what is meant by "seasonably" and when can we expect this response to be complete?

RESPONSE:

The information requested follows. The first upgrade will address the latest amendments to the federal Safe Water Drinking Act. The deadline for compliance with the Stage 1 Disinfectants/Disinfection By-Products Rule is December 31, 2001. The deadline for compliance with the Interim Enhanced Surface Water Treatment Rule is December 31, 2003.

Witness: Joe Lewis, Quest Engineers, Lexington, Kentucky

CITY OF CYNTHIANA

REQUEST:

In Response to Request No. 4 (Item No. 4, Sheet 1 of 1), the City responds to the question, "When was the 16" waterline built from the filtration pump to the Bundy tower and for what purpose was the waterline built?" Answer: "1989, to increase pumping efficiency and to allow more water to be stored near the perimeter of the distribution system . . ." The City then noted as witnesses to this answer – Carlos Miller and Joe Lewis of Quest Engineers, Inc. The Water Association seeks the following answers:

- a. Please explain the witnesses' affiliation with said project?
- b. If they were directly involved, please provide documentation and design information for the project?
- c. If they were not, please provide documentation and design information for the project and the name or names of the engineers involved.

RESPONSE:

- a. Neither Mr. Lewis nor Mr. Miller was involved in the design or construction of the project.
- b. Not applicable.
- c. Bob Smallwood, GRW Engineers, Inc., 801 Corporate Drive, Lexington, Kentucky. The project drawings are attached.

Witness: Joe Lewis, Quest Engineers; Carlos Miller (subparts a and b)

CITY OF CYNTHIANA

REQUEST:

In Response to Request No. 8 (Item No. 8, Sheet 1 of 1), the Water Association asked the City to please clarify how the City of Cynthiana came up with the inch mile data for pipe jointly used with the Water Association. The City provided a response, however, the map (Item No. 15, Sheet 1 of 2) provided is inadequate and the Water Association cannot determine line size and distance from the map. Please provide legible system map or supporting data, which may include the hydraulic model input and accompanying schematic, that clearly identifies line size and length that was used in determining inch mile data for pipe jointly used with the Association.

RESPONSE:

A full-size copy of the water system map is attached. The hydraulic model input and other requested documents have not been completed. Quest Engineers compiled the inch mile data by using a planimeter to measure the pipe lengths as shown on the system map.

Witness: Joe Lewis, Quest Engineers, Lexington, Kentucky

CITY OF CYNTHIANA

REQUEST:

In the City's response to Request No. 5 (Item 5, Sheets 1 and 2 of 2), please provide corresponding drawings and other design information relative to the Raw Water Pump Station and the estimate provided.

RESPONSE:

See attached. Design information has not been completed.

Witness: Joe Lewis, Quest Engineers, Lexington, Kentucky

CITY OF CYNTHIANA

REQUEST:

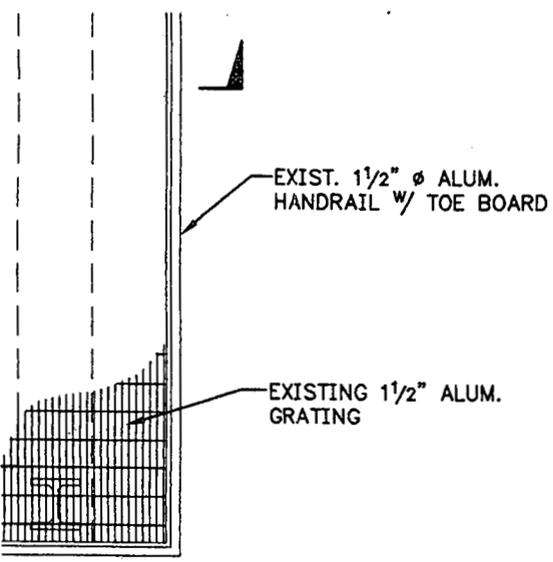
Please provide minutes or detailed information regarding the meeting the City of Cynthiana held on June 15, 1999, with Mayor Wells, other city employees, Don Hassell of Bluegrass Area Development District, and Kelly Rice of the Division of Water. (This meeting is referred to in Volume 1, Item No. 6 and Item No. 8, Sheet 1 of 1.)

RESPONSE:

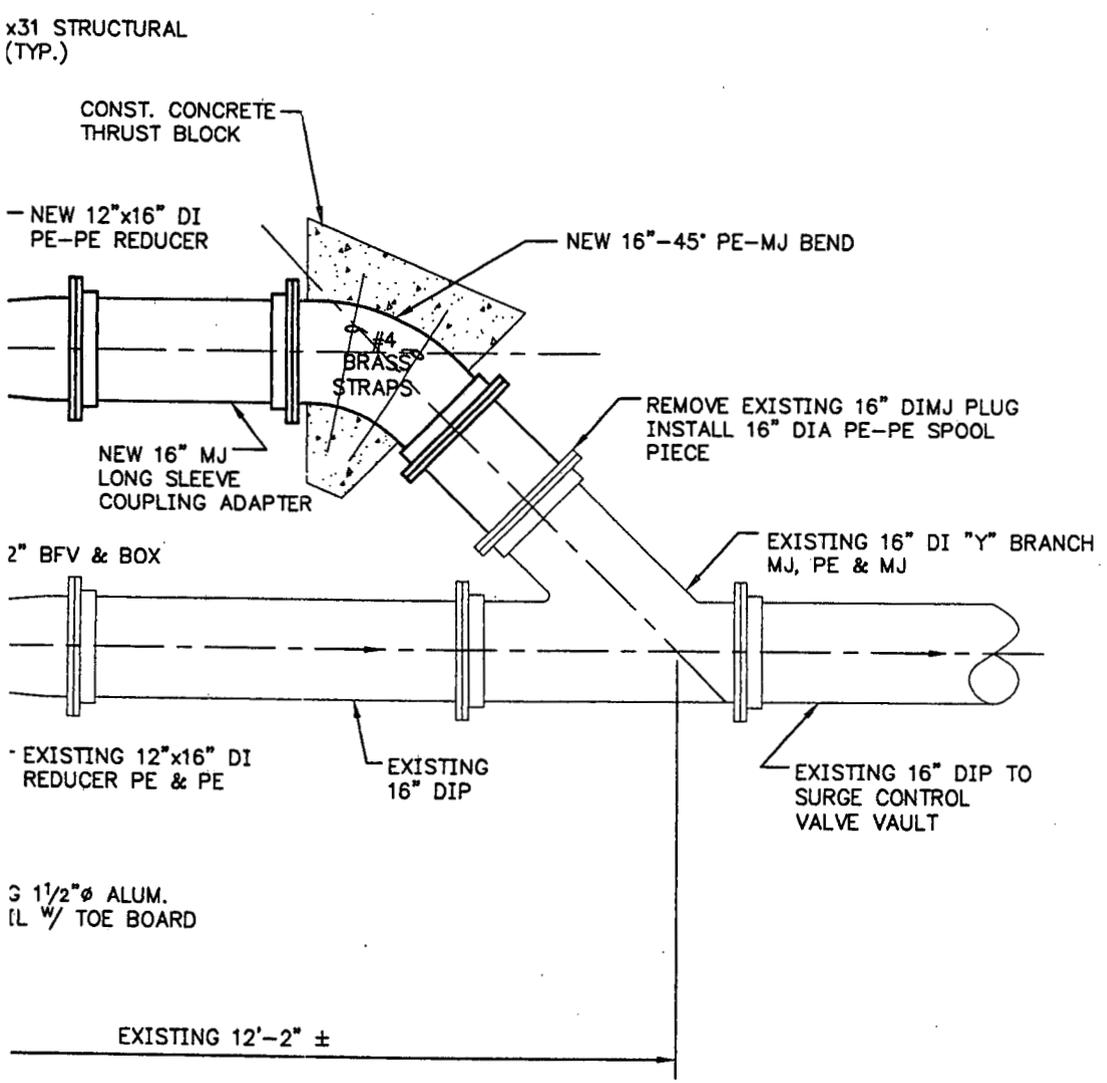
The purpose of the June 15, 1999 meeting was to gather information regarding the process for increasing Cynthiana's water and sewer user rates. Prior to the meeting, Mayor Wells filed a rate schedule with the PSC which eliminated the fourth tier of Cynthiana's water rate schedule. Mayor Wells had served as a city commissioner for a number of years prior to becoming Cynthiana's mayor, and was thus aware of the problems associated with HCWA's increasingly large water use and the substantial loss of revenue the City was incurring as a result. In addition, Cynthiana was seeking state funding for a new wastewater treatment plant and needed to insure that its rates were sufficient to support a bond issue. The Kentucky Natural Resources and Environmental Protection Cabinet, Division of Water ("DOW") was contacted for assistance, and Kelly Rice attended the meeting on behalf of DOW.

During the course of the meeting, Mayor Wells asked Jerry Hensley of England & Hensley to conduct an analysis of the water and sewer operations. The purpose of the water analysis was to provide to the PSC supporting documentation for Cynthiana's rate changes. Mr. Hensley agreed to perform these analyses in conjunction with the annual audit.

Witness: Mayor Virgie Wells



.50



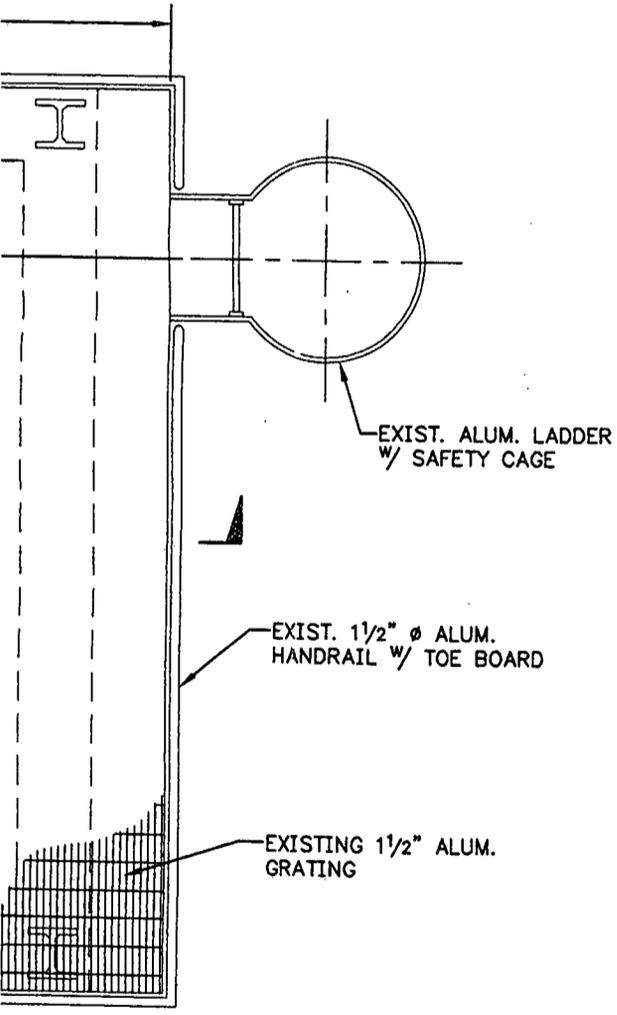
**RAW WATER PUMPING STATION
 WATER SYSTEM IMPROVEMENTS**
 CYNTHIANA, KENTUCKY
PLANS AND SECTIONS

| | |
|-------------------|-------|
| SCALE: "AS NOTED" | |
| DATE: SEP 1999 | |
| JOB NO.: | |
| DESIGNED: EMB | |
| DRAWN: DCC | |
| CHECKED: | |
| Q/C: | |
| OWNER APPROVAL: | |
| BY: | |
| TITLE: | |
| REVISIONS: | |
| NO.: | DATE: |

DRAWING:
1
 OF 1

.50

NG BEAM FOR
REMOVAL

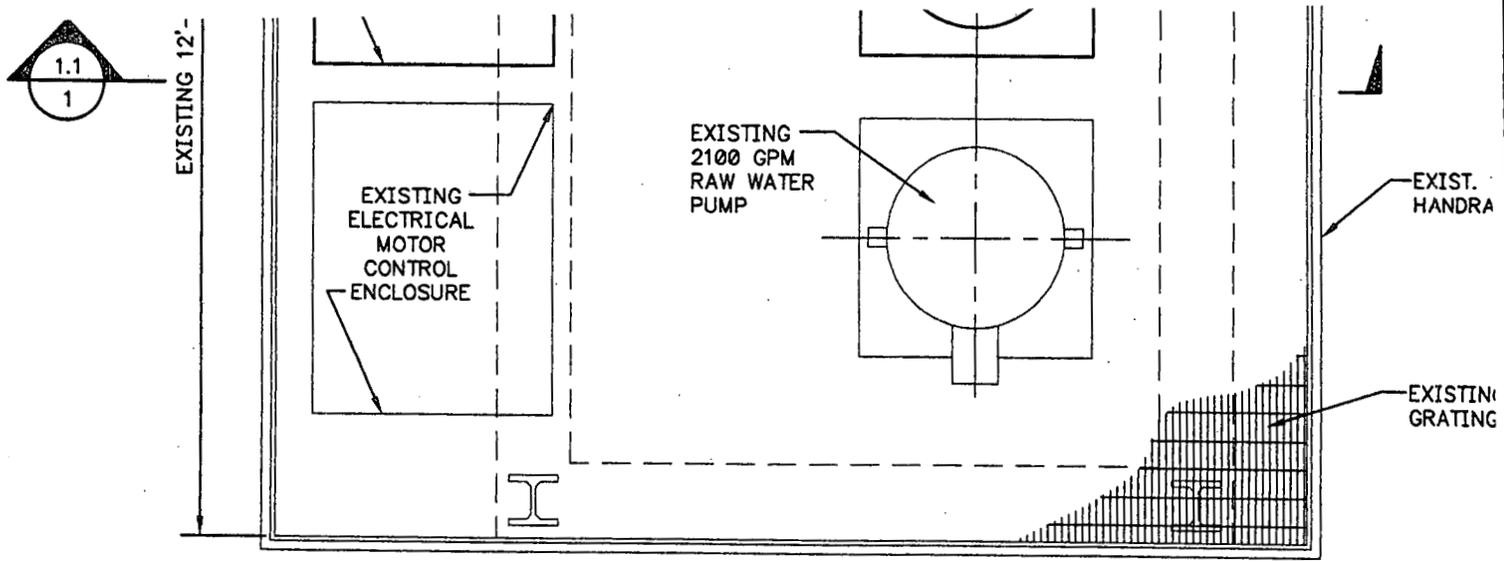


Case No. 99-300 Rev. 1/18/2000

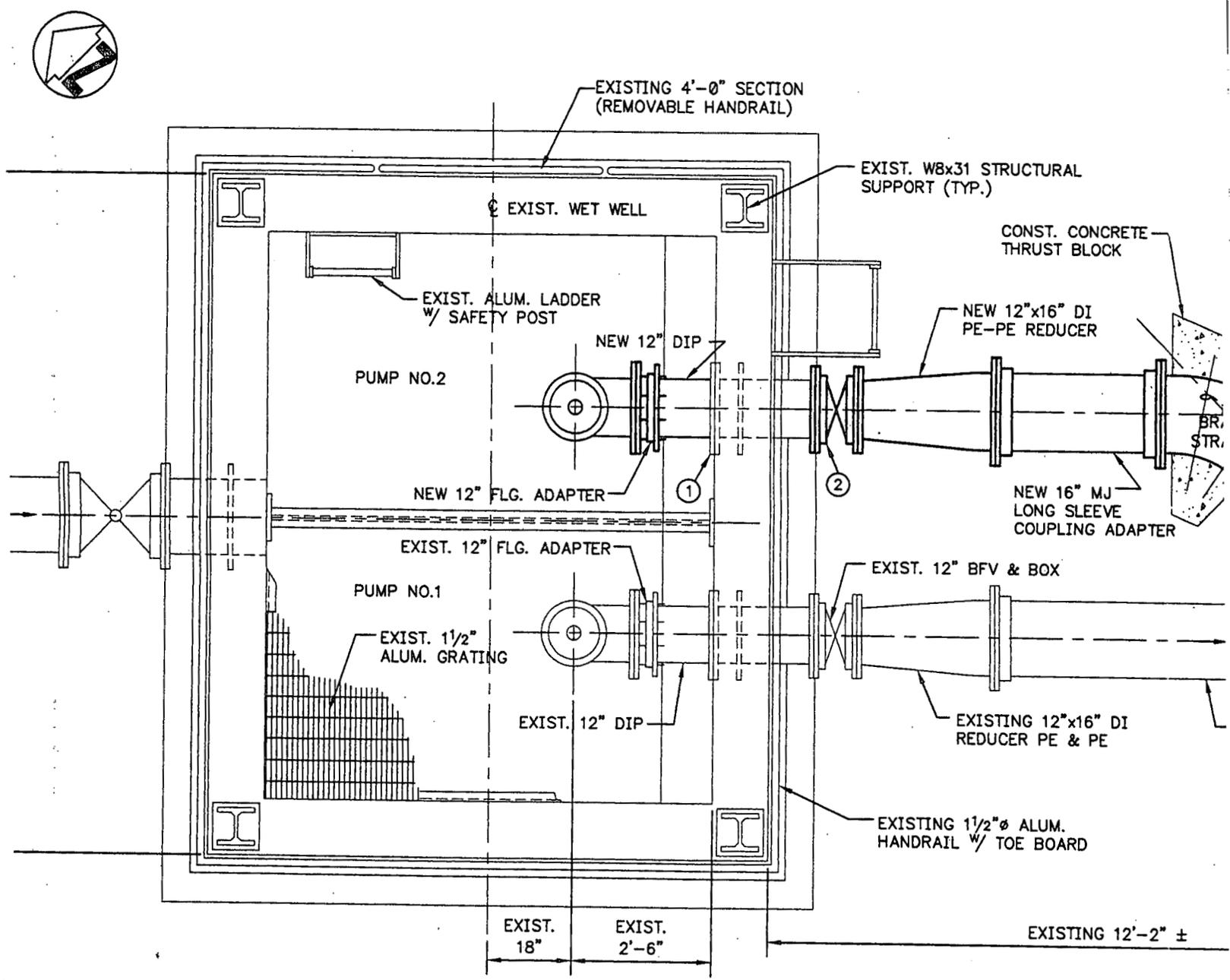
ITEM NO. 4
SHEET 2 OF 2

Quest
Quest Engineers, Inc.
Lexington, Kentucky Cincinnati, Ohio
Louisville, Kentucky

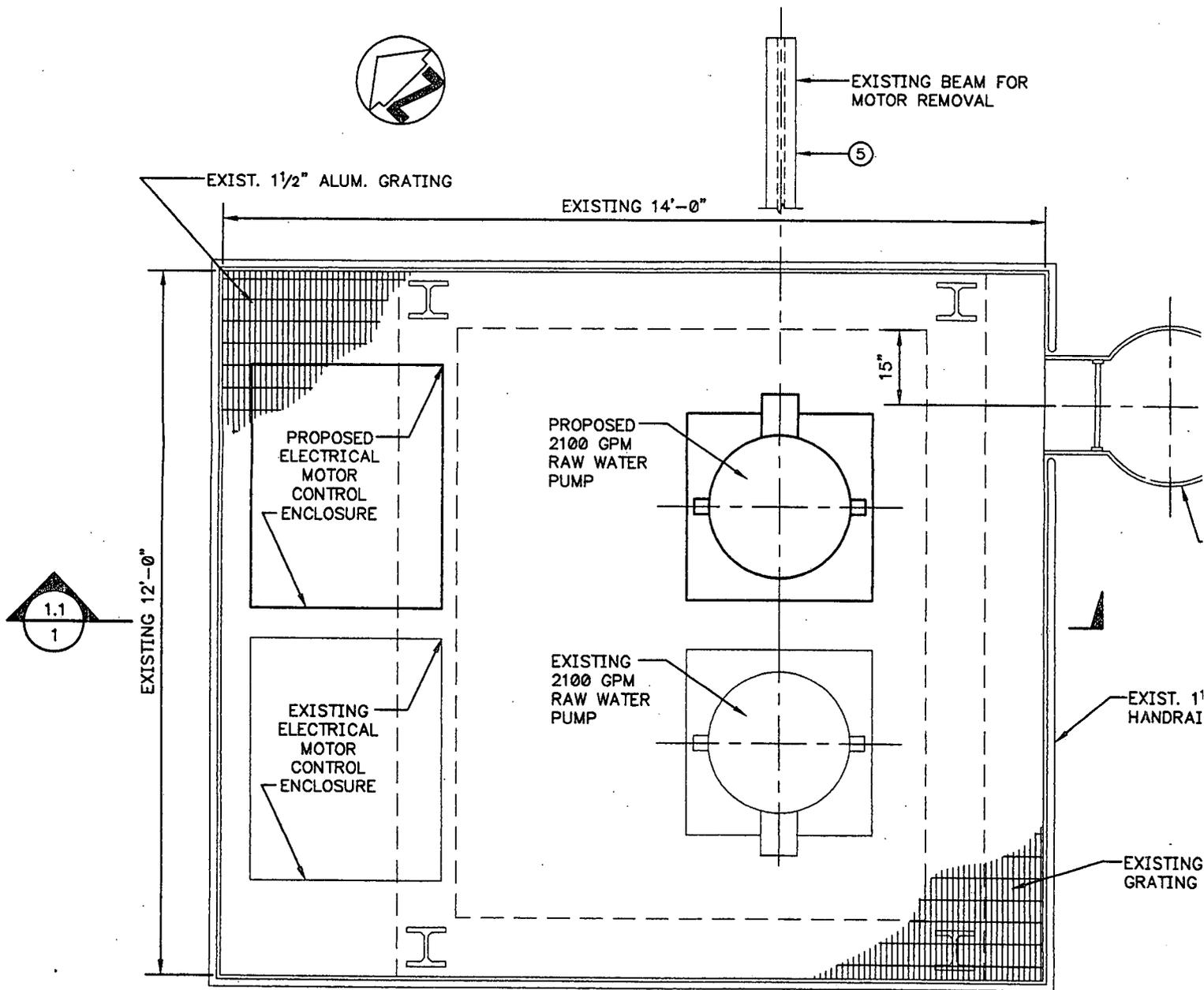
RAW WATER PUMPING STATION
WATER SYSTEM IMPROVEMENTS
CYNTHIANA, KENTUCKY
PLANS AND SECTIONS



PLAN-PUMP PLATFORM - EL. 593.50
 SCALE: 1/2"=1'-0"

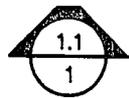


PLAN-WET WELL - EL. 574.00
 SCALE: 1/2"=1'-0"



PLAN-PUMP PLATFORM - EL. 593.50

SCALE: 1/2"=1'-0"



EXISTING 12'

EXIST. ALUM. LADDER
w/ SAFETY CAGE

EXISTING
EL. 567.83

12" FLANGE ADAPTER

16" MJ LONG SLEEVE COUPLING ADAPTER

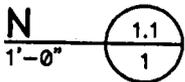
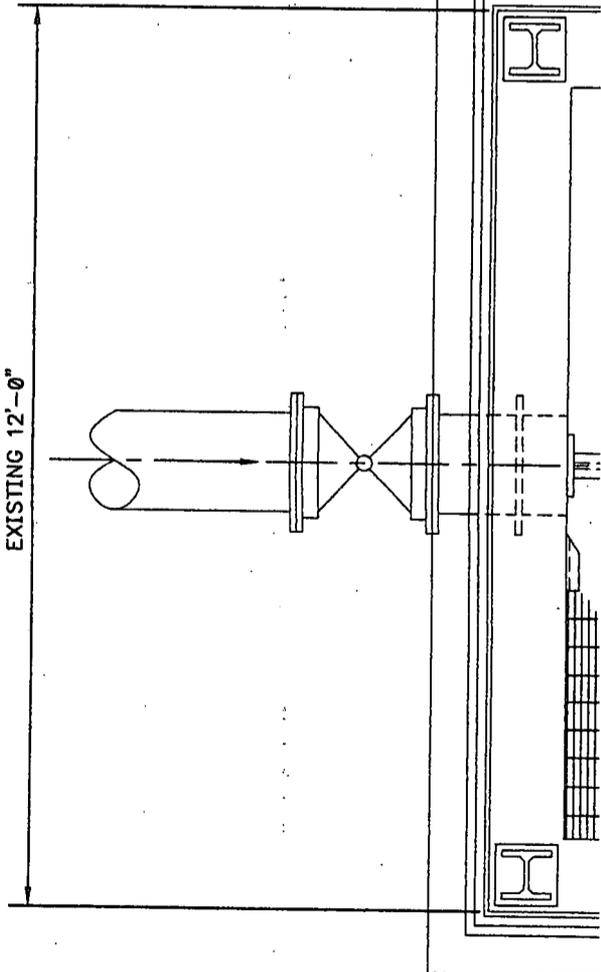
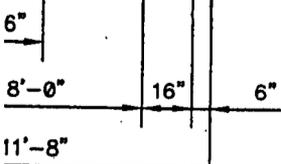
12"x16" DI. PE. REDUCER

EXISTING 16" DIP
TO SURGE CONTROL
VALVE VAULT

EXIST. EL. 554.00

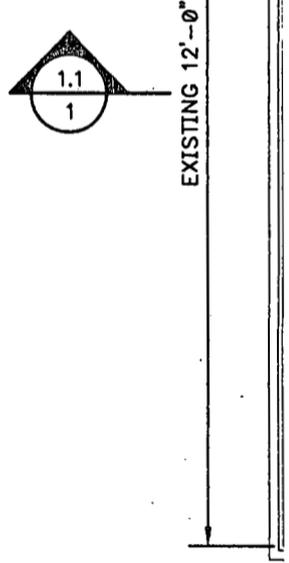
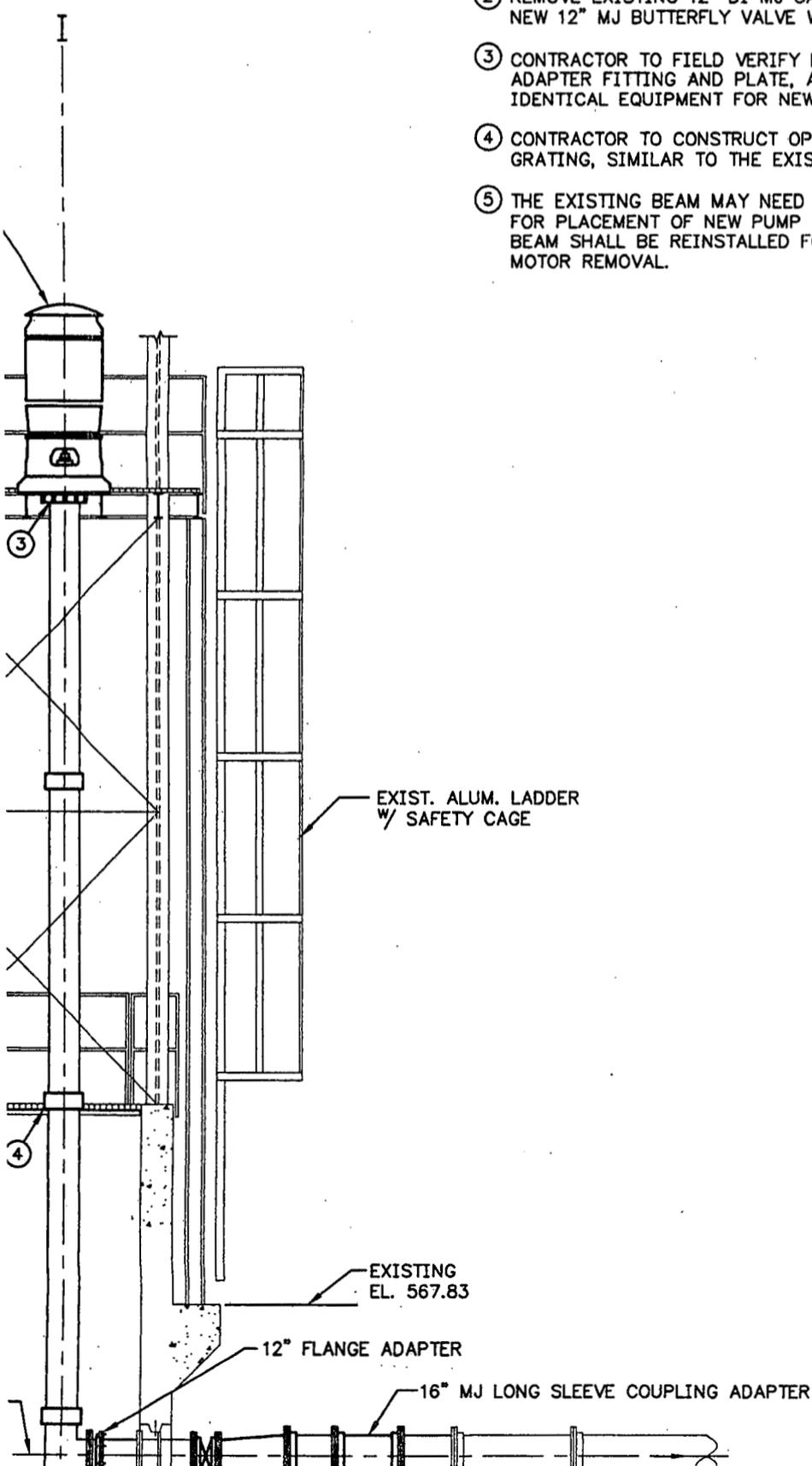
PROPOSED BRASS
STRAINER

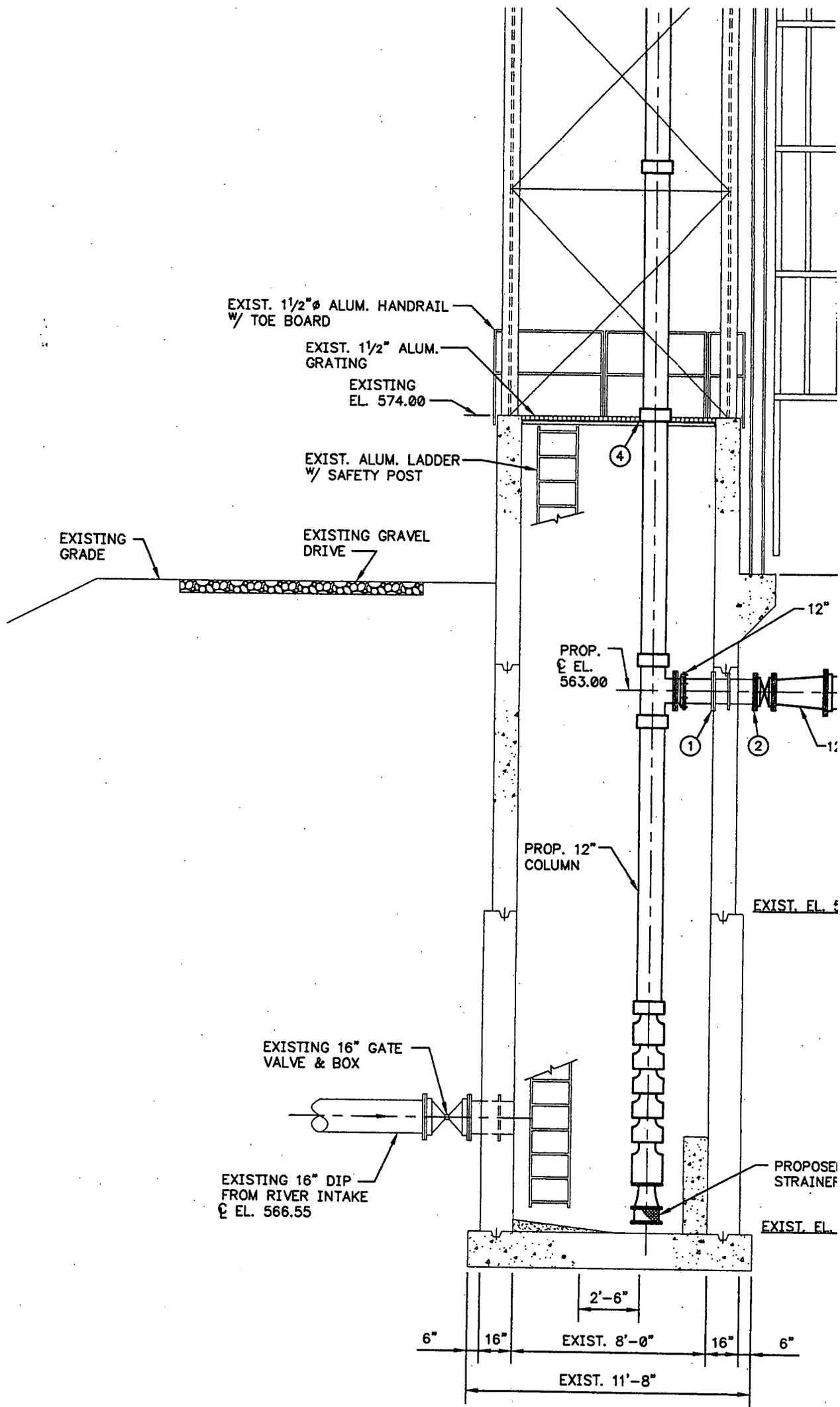
EXIST. EL. 541.00



NOTES:

- ① REMOVE EXISTING 19" O.D. BLIND FLANGE CONNECT IN NEW PUMP PIPING.
- ② REMOVE EXISTING 12" DI MJ CAP, AND INSTALL NEW 12" MJ BUTTERFLY VALVE WITH BOX.
- ③ CONTRACTOR TO FIELD VERIFY EXISTING PUMP ADAPTER FITTING AND PLATE, AND PROVIDE IDENTICAL EQUIPMENT FOR NEW PUMP.
- ④ CONTRACTOR TO CONSTRUCT OPENING THRU GRATING, SIMILAR TO THE EXISTING PUMP.
- ⑤ THE EXISTING BEAM MAY NEED TO BE REMOVED FOR PLACEMENT OF NEW PUMP AND MOTOR. THE BEAM SHALL BE REINSTALLED FOR FUTURE MOTOR REMOVAL.





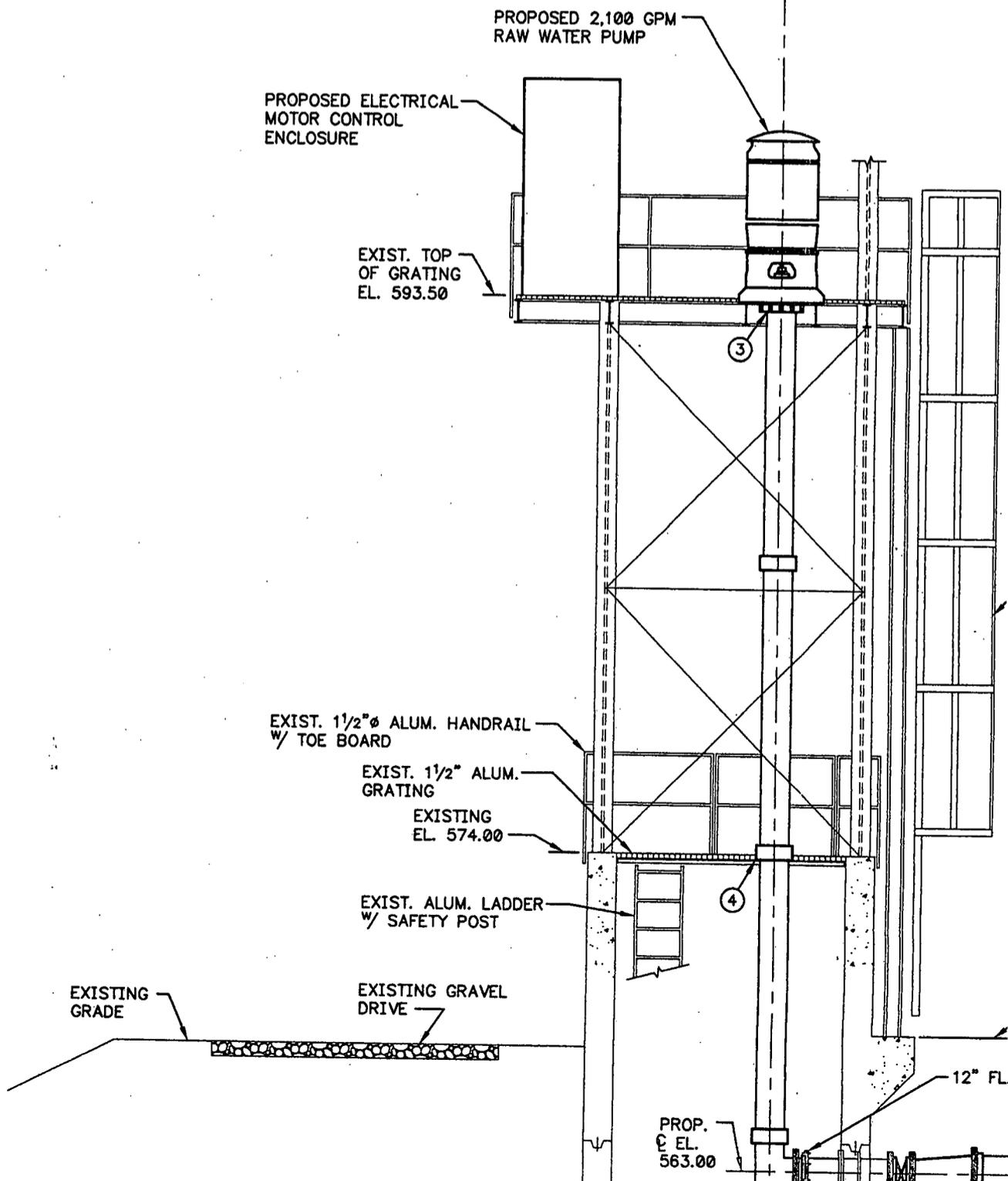
SECTION

SCALE: 1/4"=1'-0"

1.1
1

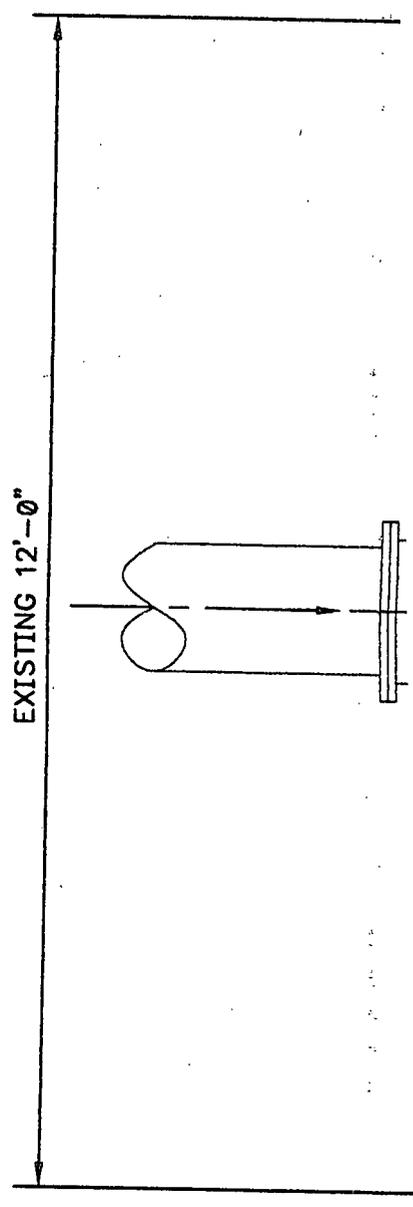
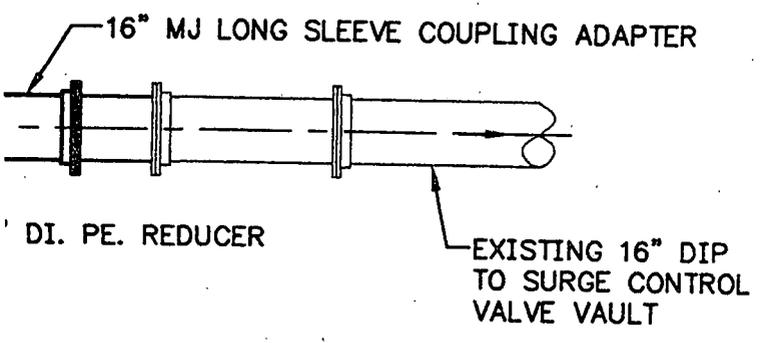
GENERAL NOTES

1. WHEN THE OPERATOR RUNS PUMP NO.1, HE WILL MANUALLY NEED TO OPEN THE PUMP NO.1-12" BFV AND CLOSE THE PUMP NO.2-12" BFV TO PREVENT BACK FLOW THROUGH PUMP NO.2. THE REVERSE IS TRUE TO RUN PUMP NO.2.
2. THE NEAREST BFV, TO PREVENT BACK FLOW TO THE RAW WATER PUMP STATION, IS LOCATED INSIDE THE EXISTING VALVE VAULT APPROXIMATELY 100' SOUTHWEST OF THE PUMP STATION & ADJACENT TO THE ENTRANCE ROAD.



— EXISTING
EL. 567.83

PIPE ADAPTER



SS

2

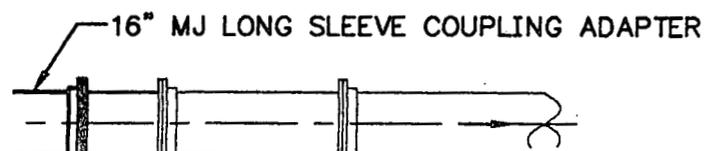
NOTES:

- ① REMOVE EXISTING 19" O.D. BLIND FLANGE CONNECT IN NEW PUMP PIPING.
- ② REMOVE EXISTING 12" DI MJ CAP, AND INSTALL NEW 12" MJ BUTTERFLY VALVE WITH BOX.
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- ⑤ THE EXISTING BEAM MAY NEED TO BE REMOVED FOR PLACEMENT OF NEW PUMP AND MOTOR. THE BEAM SHALL BE REINSTALLED FOR FUTURE MOTOR REMOVAL.

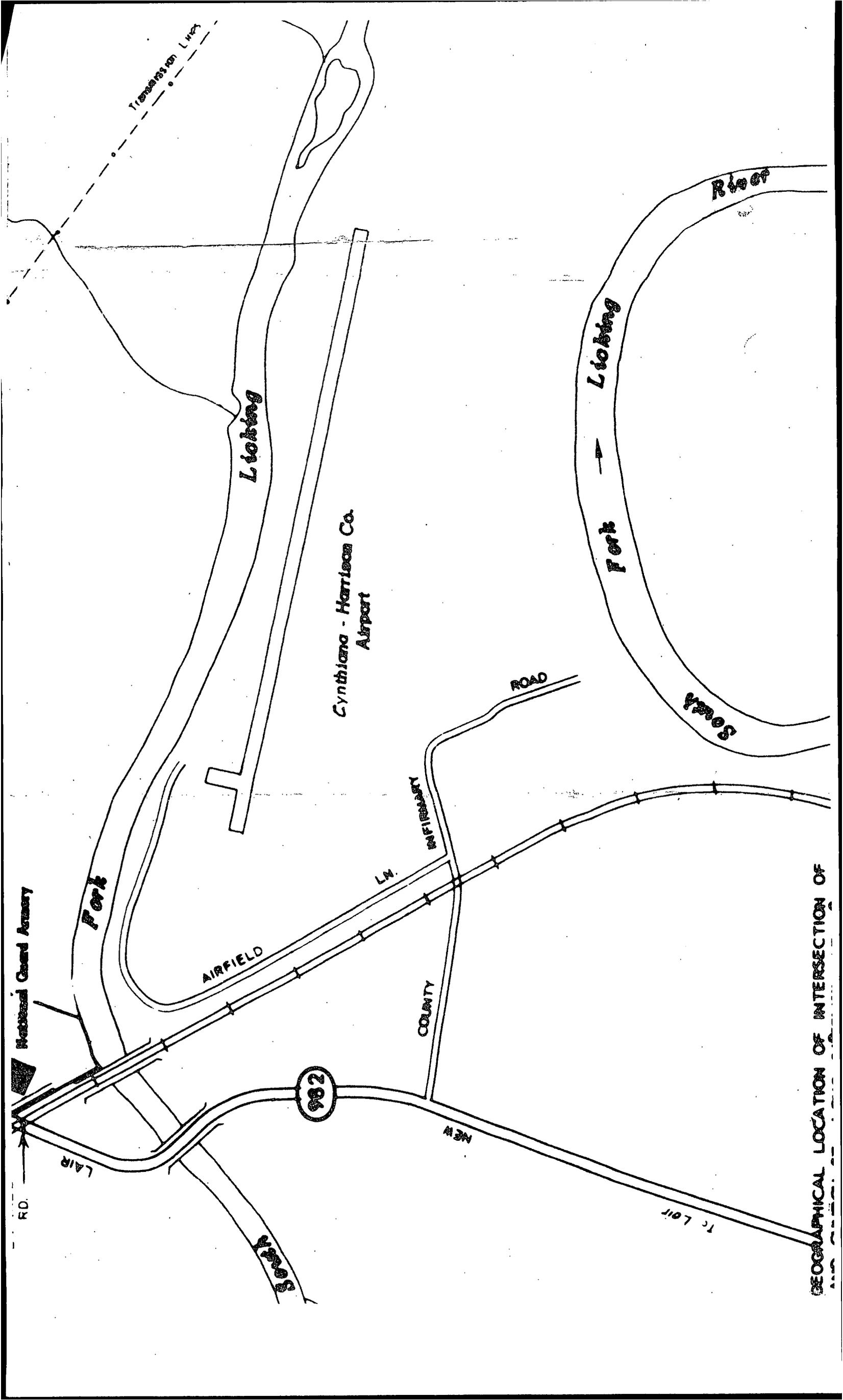
— EXIST. ALUM. LADDER
W/ SAFETY CAGE

— EXISTING
EL. 567.83

SE ADAPTER



CF



National Guard Armory

RD.

LAIR

982

AIRFIELD

Cynthiana - Harrison Co.
Airport

COUNTY

NEW

ROAD

Fork

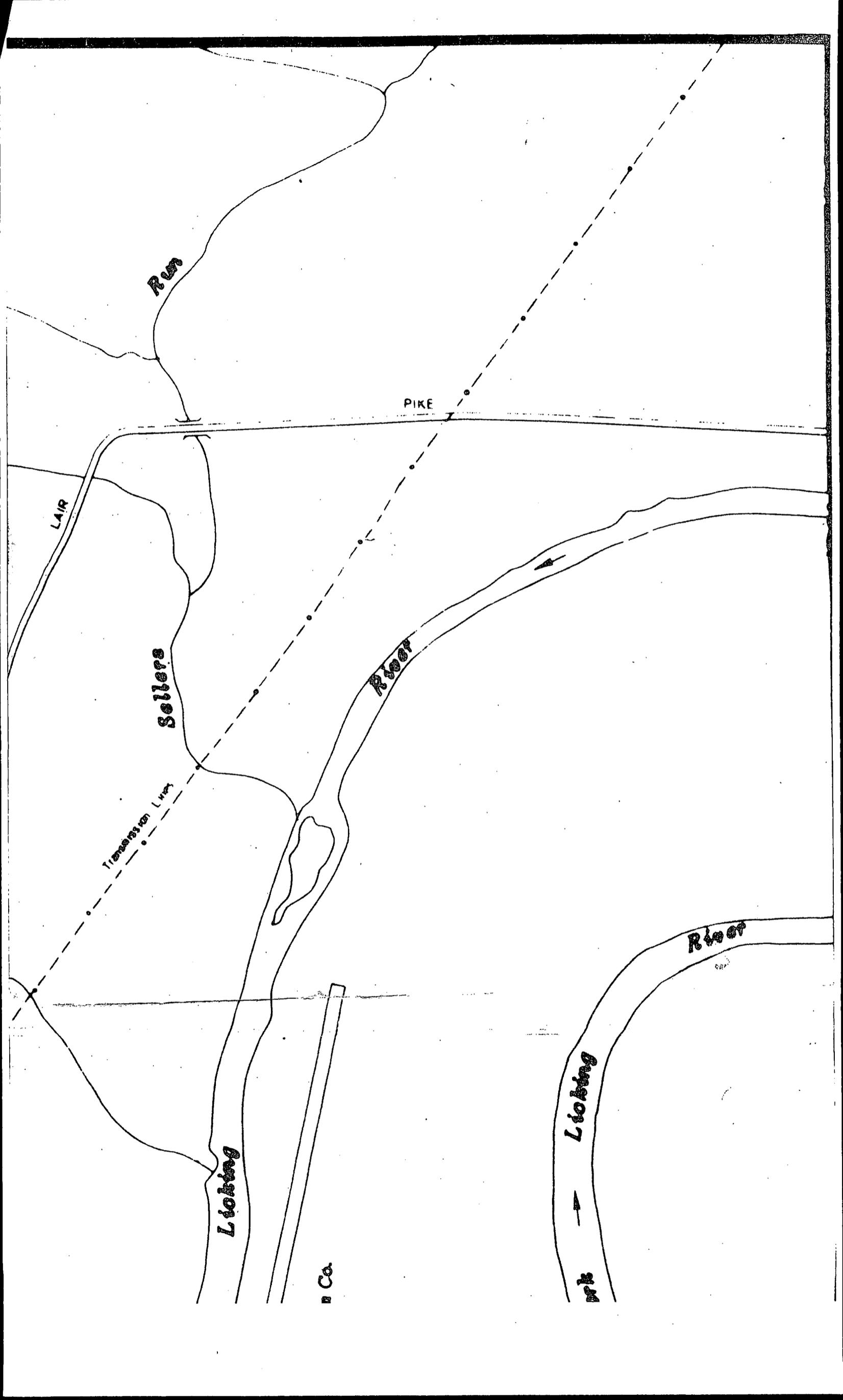
Licking

Fork Licking

South

River

GEOGRAPHICAL LOCATION OF INTERSECTION OF



Run

PIKE

LAIR

Sellers

River

Transverse Line

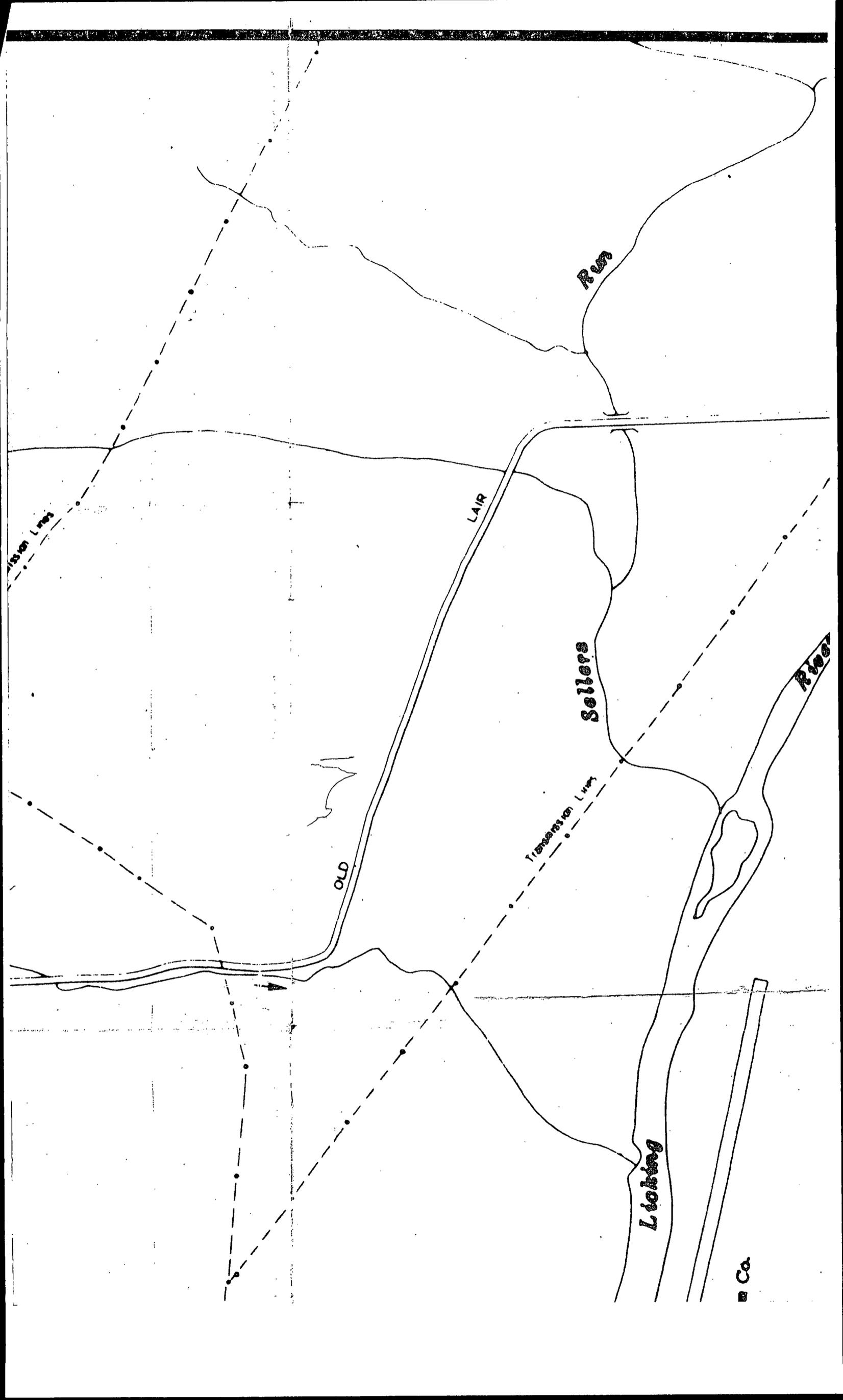
Licking

Co.

River

Licking

rk



Run

LAIR

Sellers

OLD

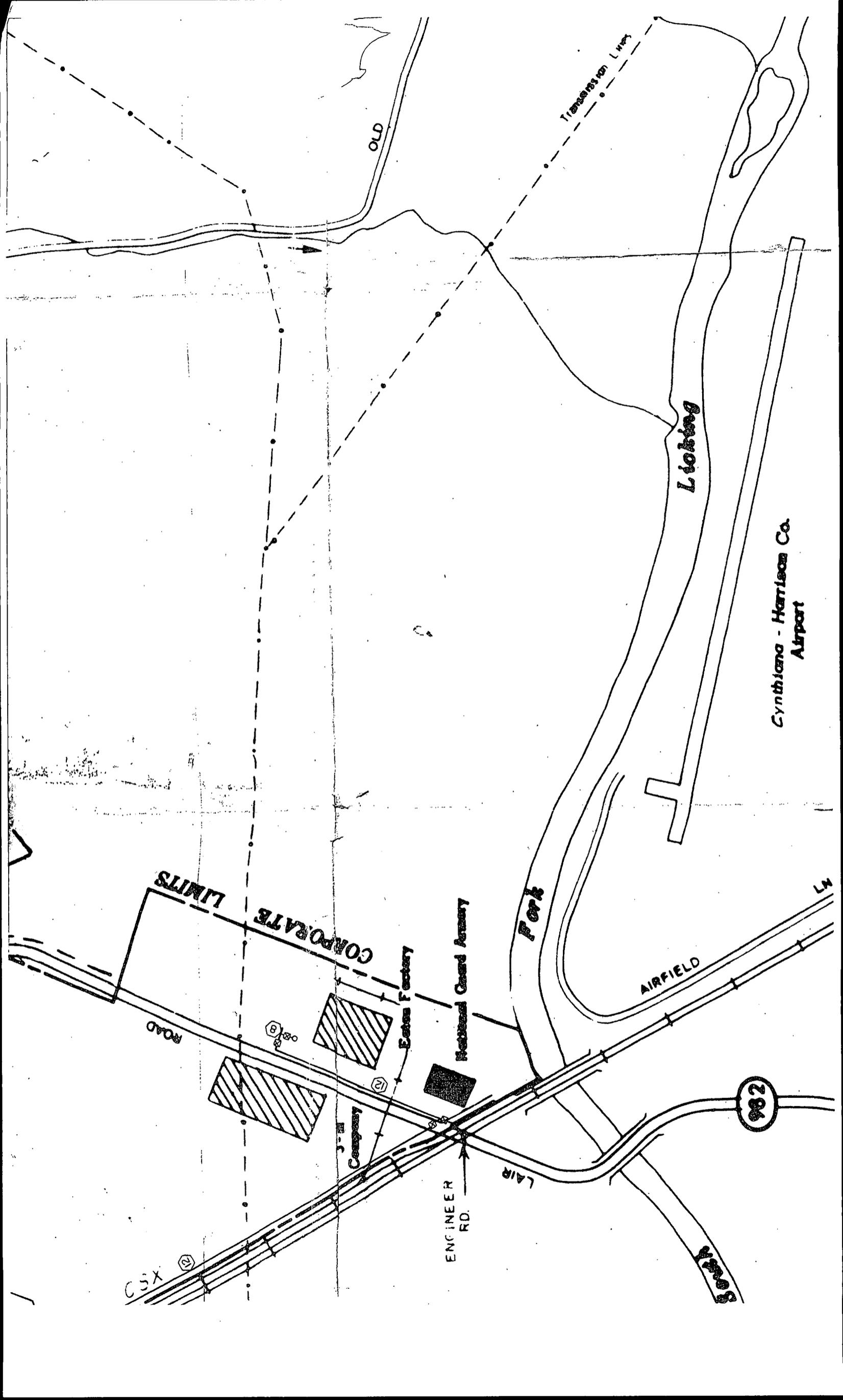
Transmission Line

River

Licking

Co.

Transmission Line



CORPORATE LIMITS

ROAD

CSX

OLD

TRANSPORTATION LINES

Licking

Cynthiana - Harrison Co. Airport

Fork

AIRFIELD

982

Eaton Factory

Method Guard Annex

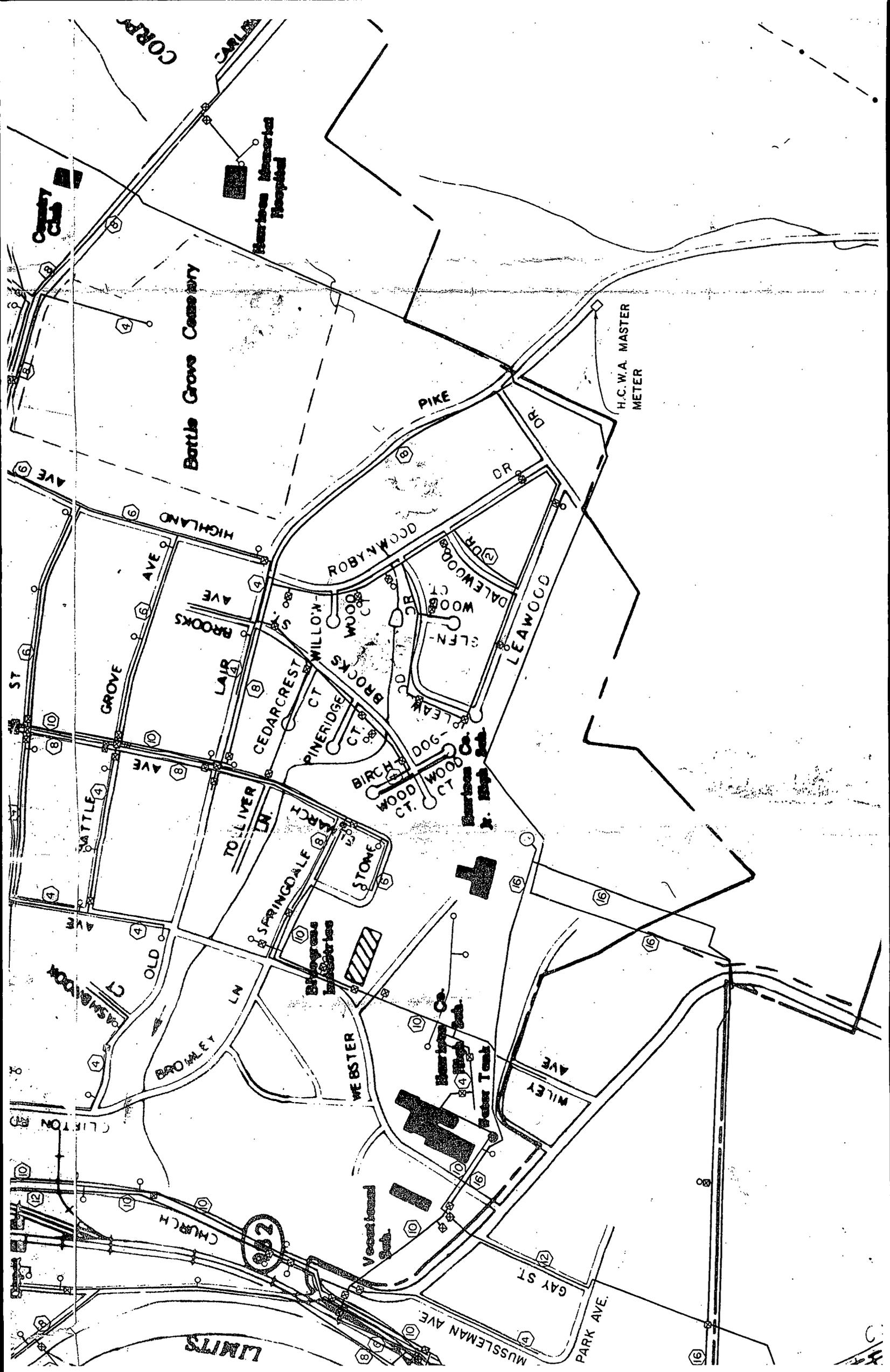
ENGINEER RD.

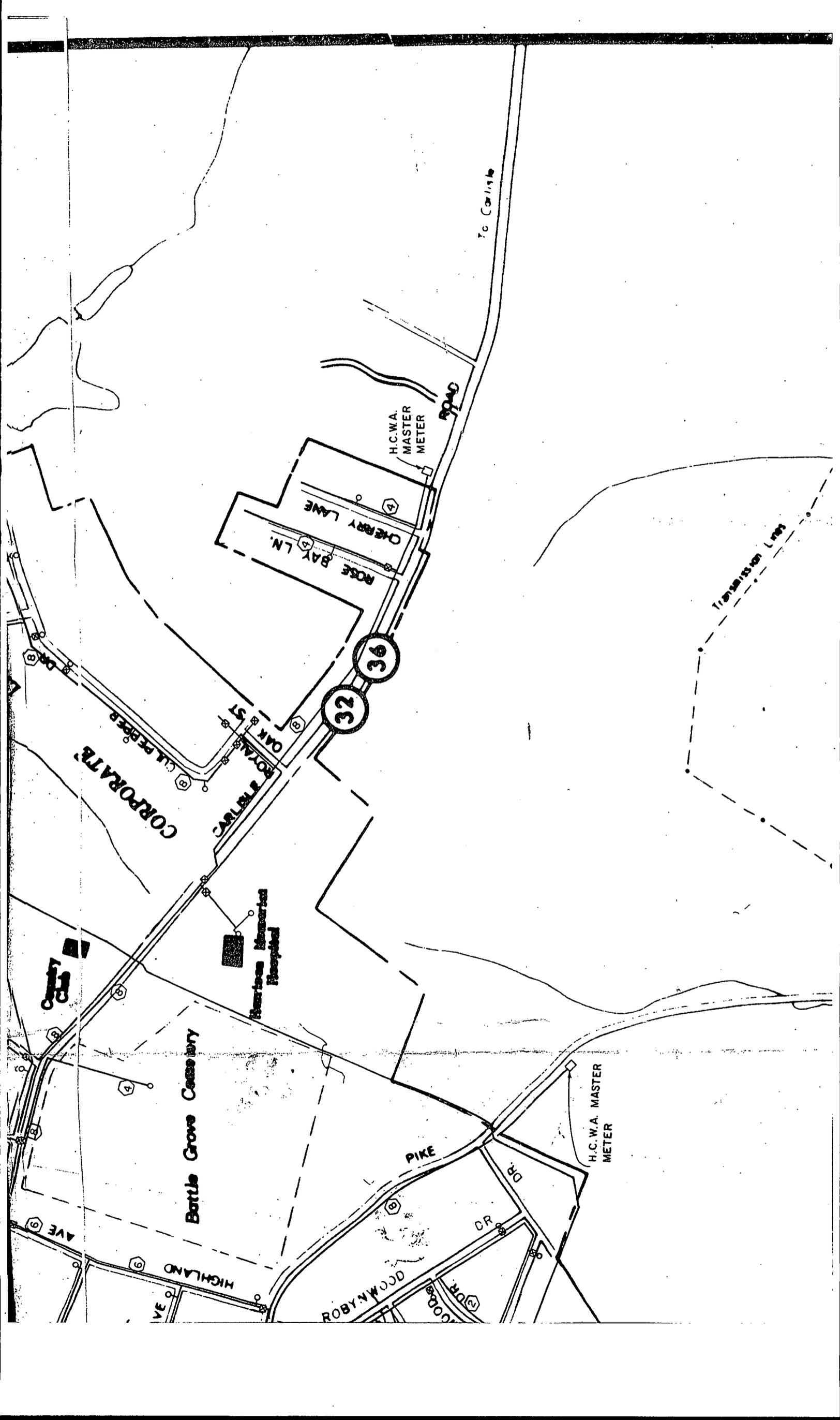
L.A.I.R.

Company

C







To Carlisle

H.C.W.A. MASTER METER

CHERRY LANE

ROSE BAY LN.

36

32

OAK ST

CORPORATE

Harrison Memorial Hospital

Bottle Grove Cessary

H.C.W.A. MASTER METER

PIKE

DR

ROBYNWOOD

DR

HIGHLAND

VE

110' DISTANCE LINE



GRW Engineers, Inc.
Engineers, Architects, Planners

801 Corporate Drive • Lexington, KY 40503 • (606) 223-3999
LEXINGTON, LOUISVILLE, BOWLING GREEN, KY • NASHVILLE, TN

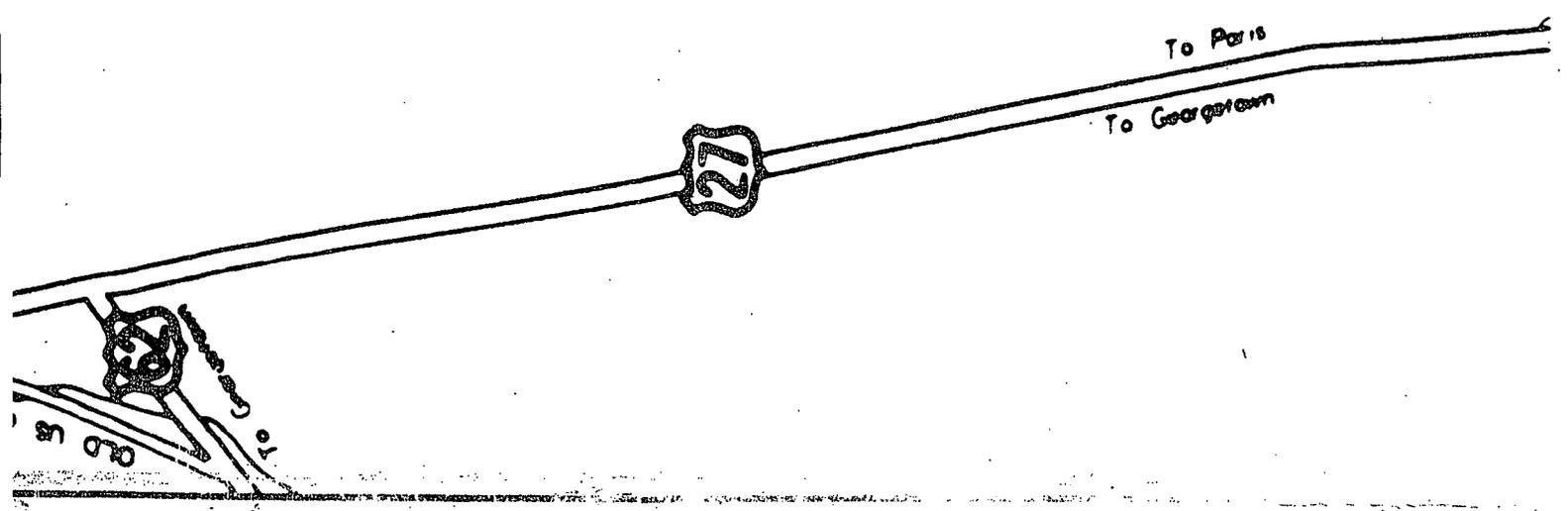
CYNTHIANA, KY. WATER DISTRIBUTION SYSTEM

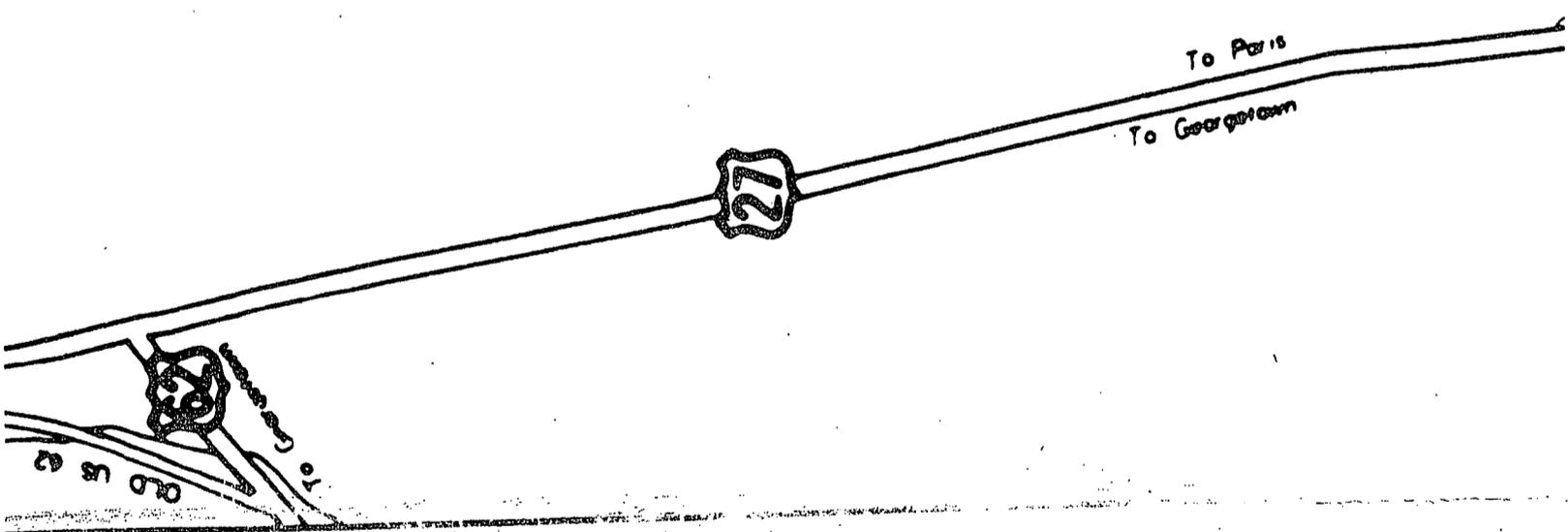
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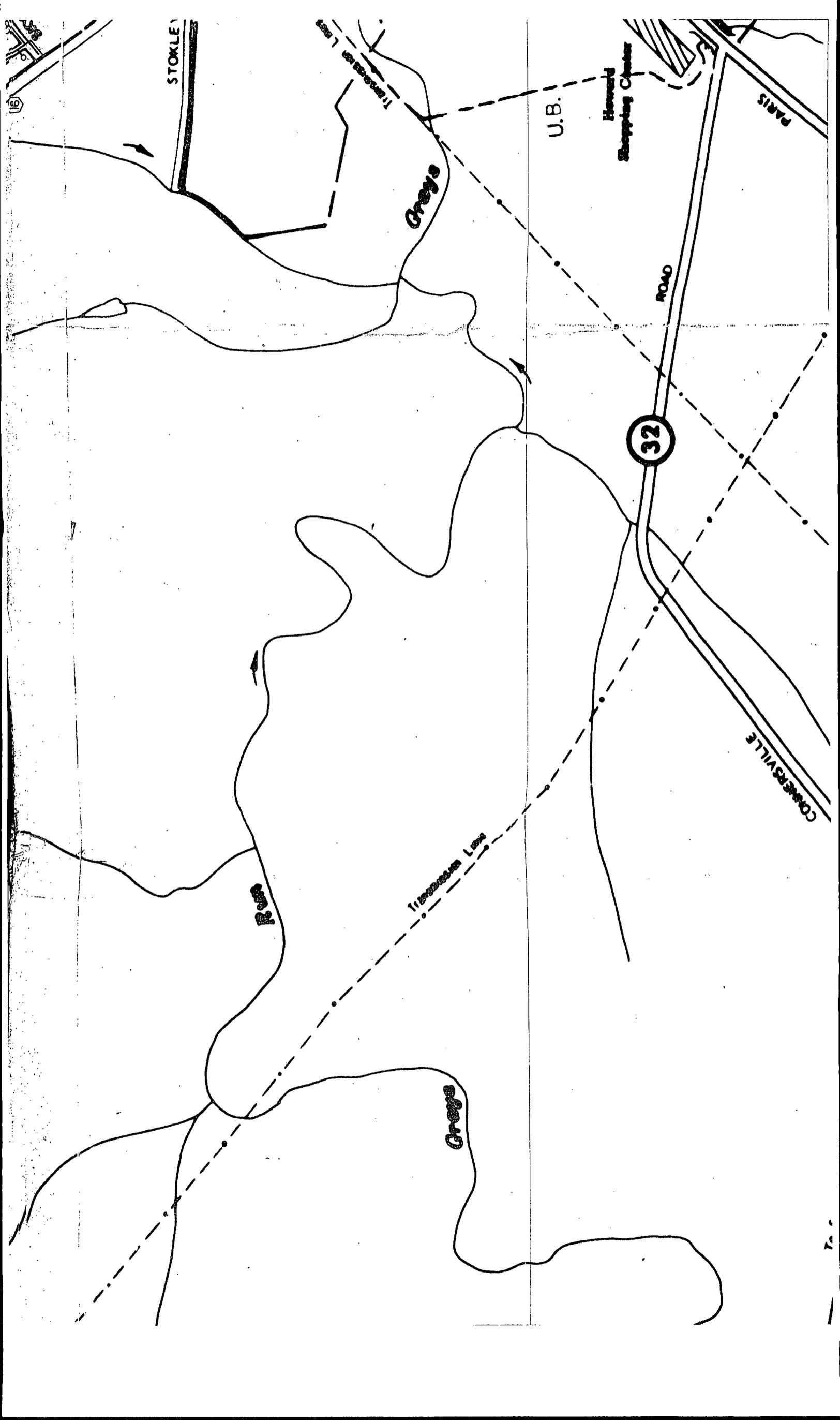


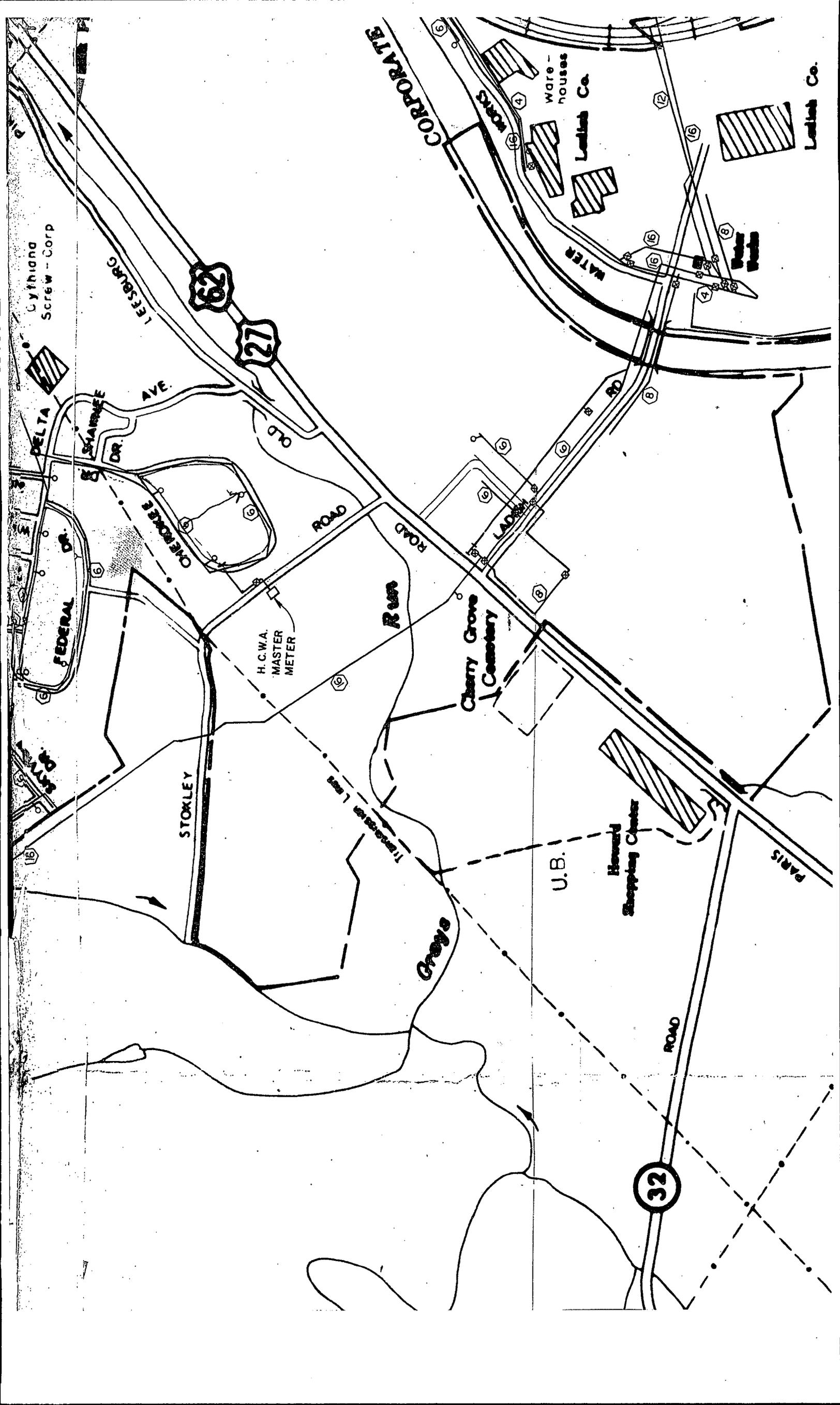
Case No. 99-300 - Rec 1/18/2000

ITEM NO. 3
SHEET 2 OF 2









Cythiana
Screw - Corp

LESBURG
AVE.

62

27

DELTA
DR.

SPAINSEE
DR.

CHEMURE
DR.

FEDERAL

H.C.W.A.
MASTER
METER

STOKLEY
ROAD

Run

Cherry Grove
Cemetery

LADIES

CORPORATE

WAREHOUSES

Ladish Co.

WATER

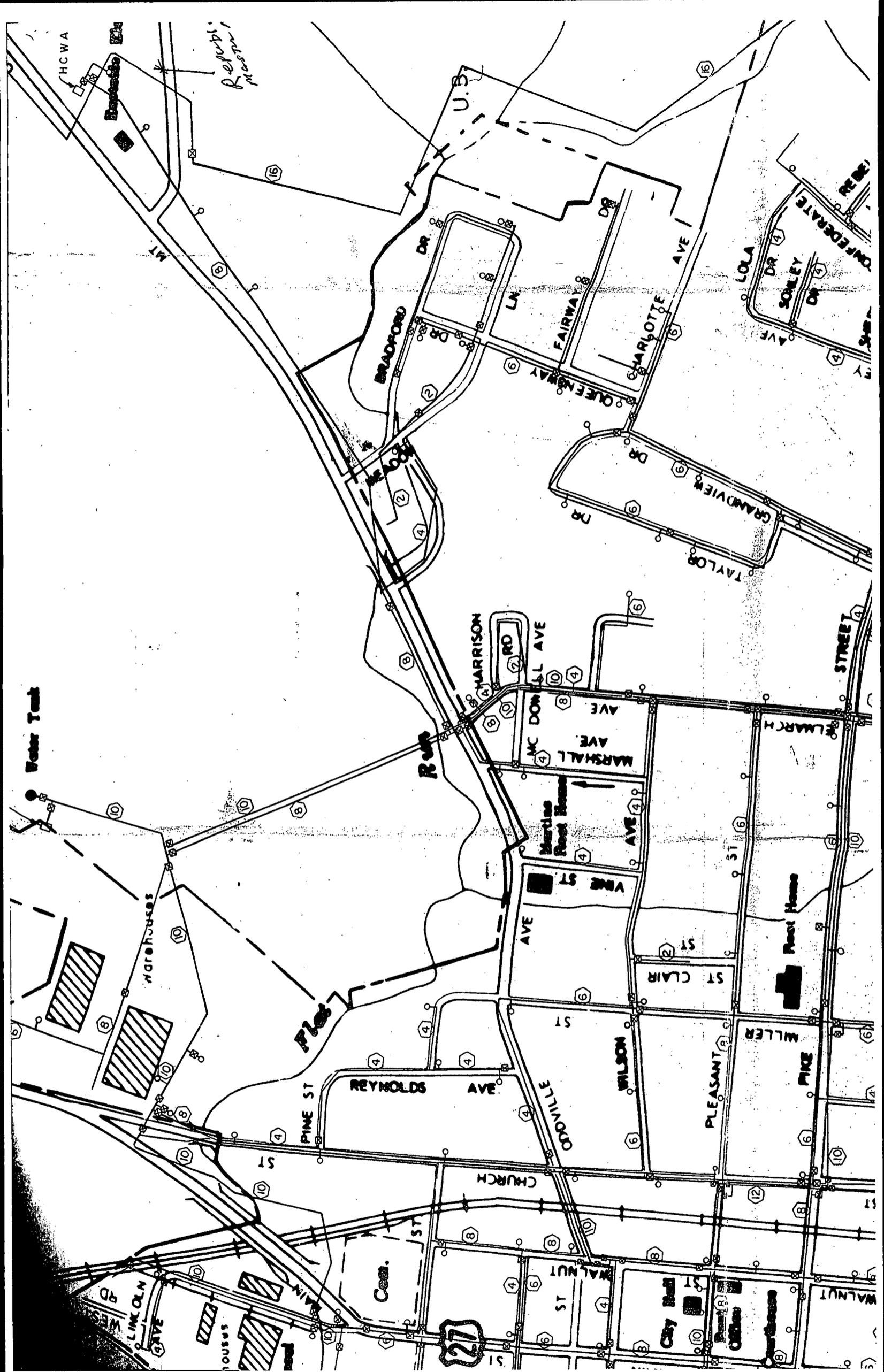
Ladish Co.

U.B.

Hazard
Shopping Center

PARIS
ROAD

32



HCWA

Republ.
Mason

U.S.

BRADFORD DR

FAIRWAY DR

CHARLOTTE AVE

LOLA DR

SONLEY DR

CONFEDERATE

GRANDVIEW DR

TAYLOR DR

MARRISON RD

DONELL AVE

MARSHALL AVE

MARSHALL AVE

Martins Post Home

VINE ST

AVE

ST CLAIR

WILSON

PLEASANT ST

MILLER

PIKE

REYNOLDS AVE

CHURCH ST

DEVILLE

WILSON

PLEASANT ST

MILLER

PIKE

WALNUT ST

ST

CITY HALL

ST

WALNUT

LINKOLN RD

WAREHOUSES

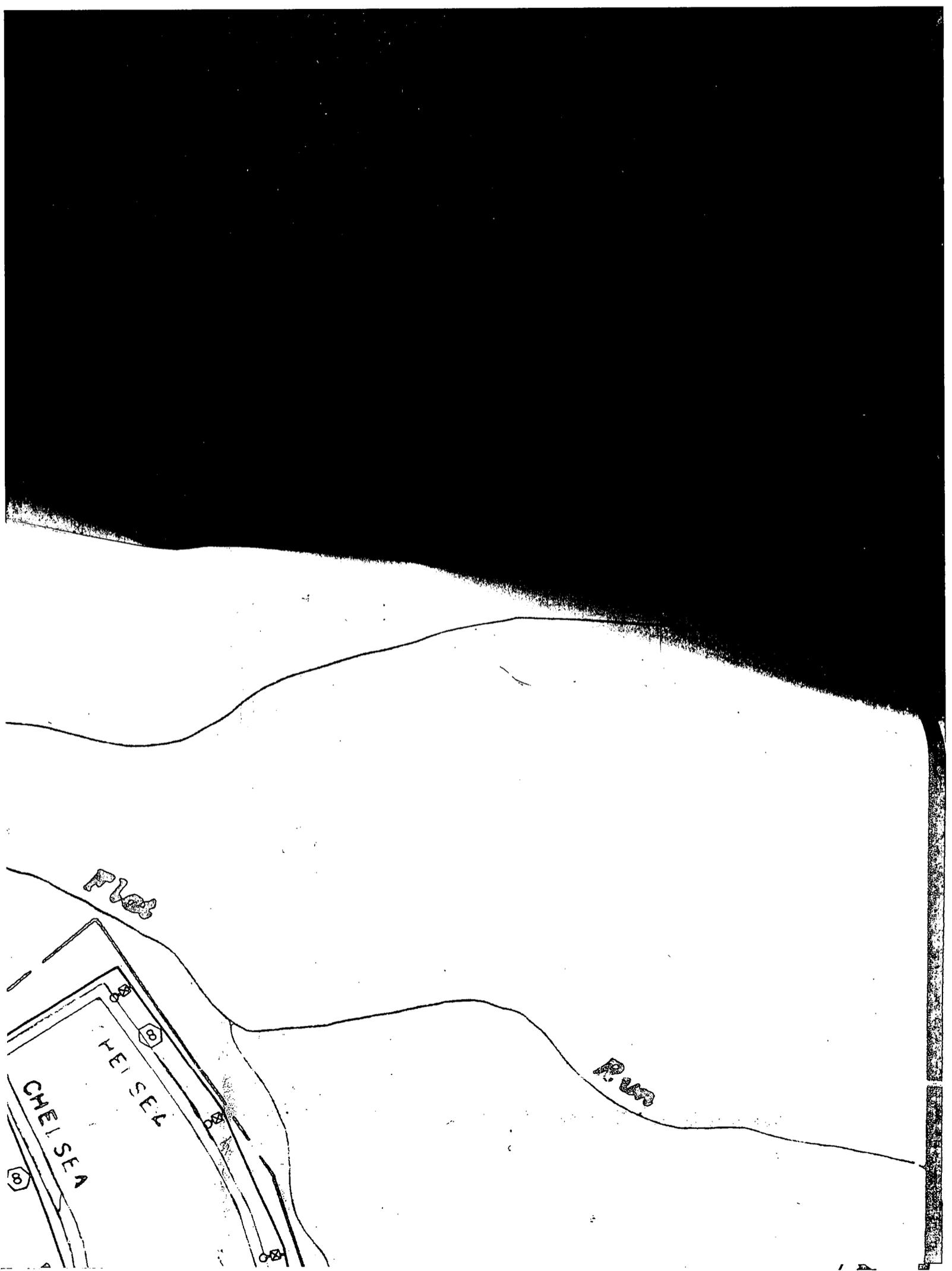
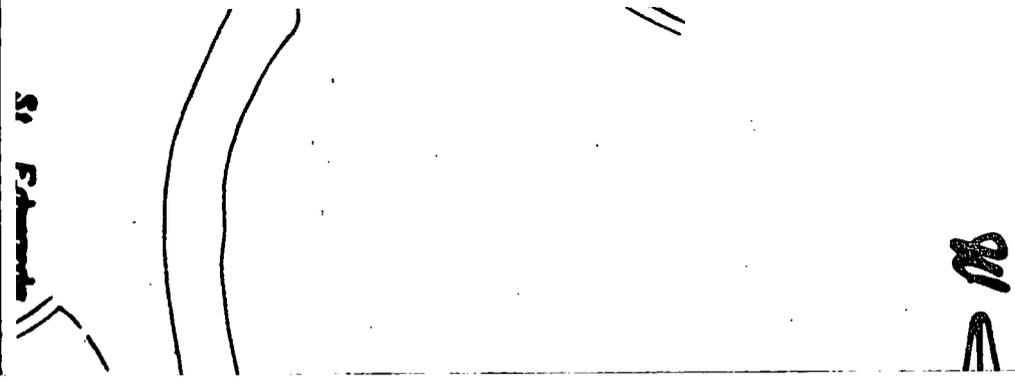
27

Water Tank

WAREHOUSES

PLANT

Post Home



To Falmouth
To Cincinnati

Indian

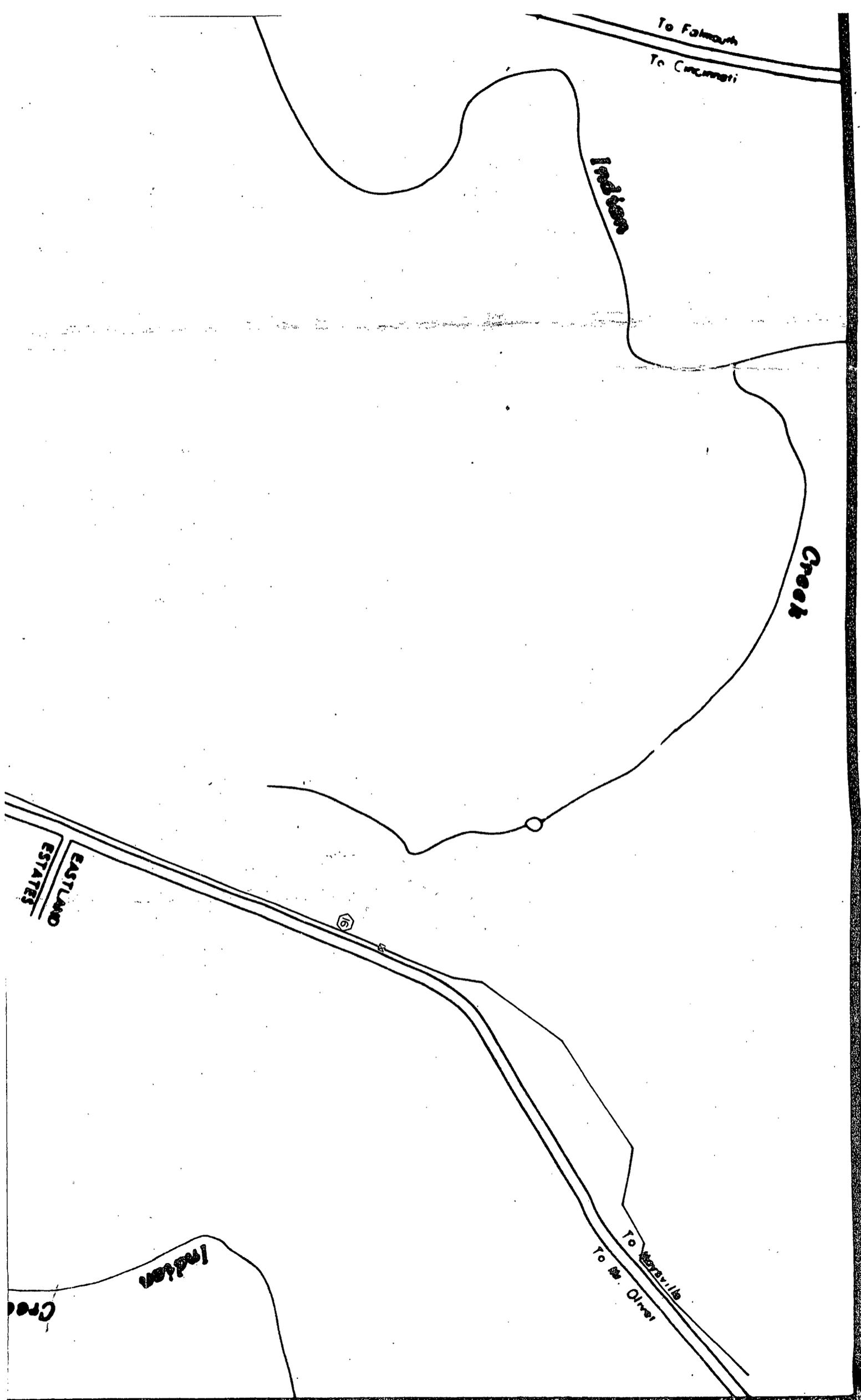
Creek

EASTLAND
ESTATES

To Nashville
To Mt. Olive

Indian

Creek



St. Edwards Cemetery

EAST ROAD

FALMOUTH

Indian Creek

H.C.W.A. MASTER METER

Water Tank

WAREHOUSES

WEST RD
LINCOLN AVE

River

Can.

MURCH

ST

REYNOLDS AVE

PINE ST

River

River

MARRISON RD

BRADFORD

MT.

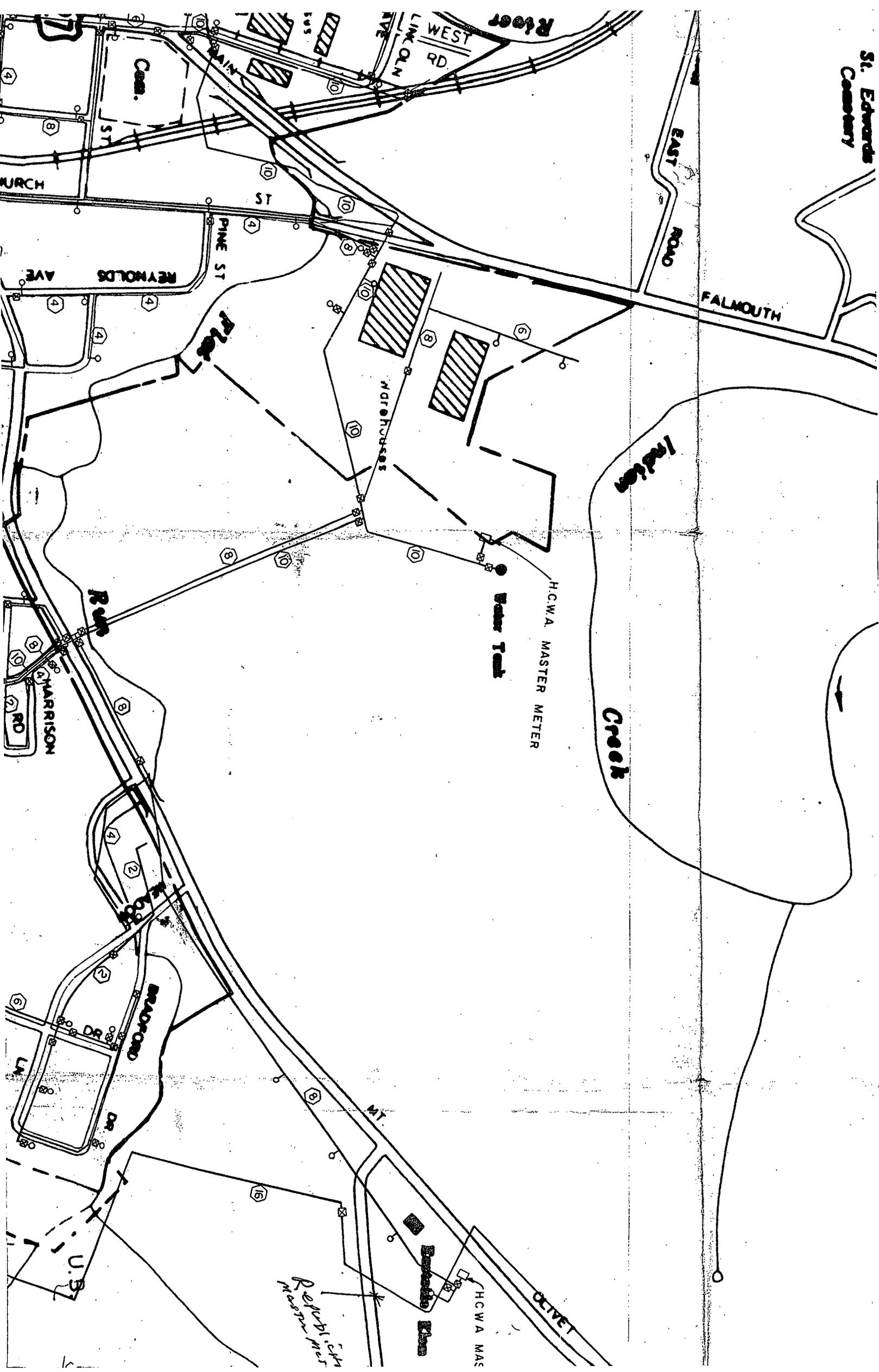
Bradford Elm

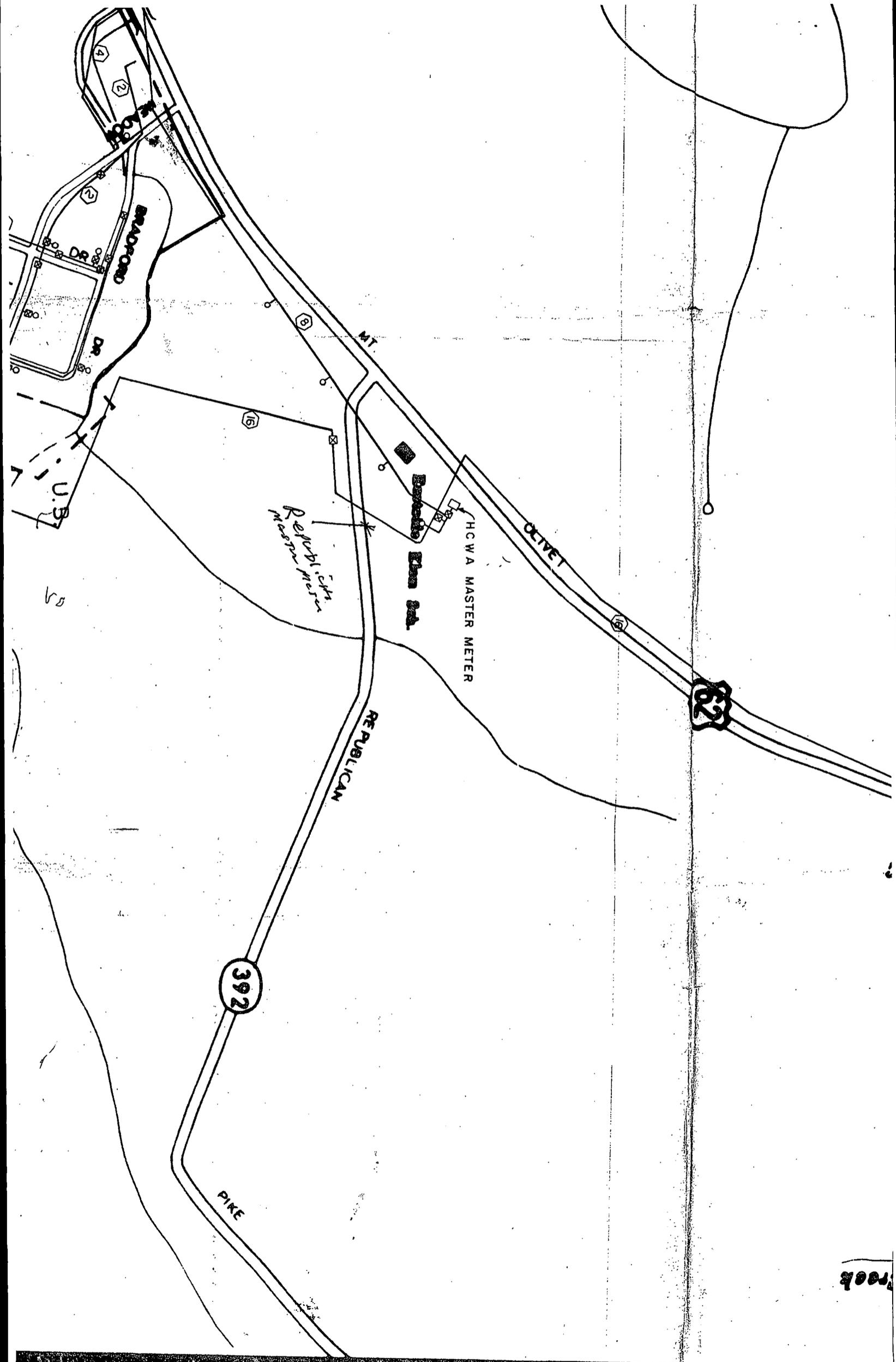
H.C.W.A. MAS

OCTAVET

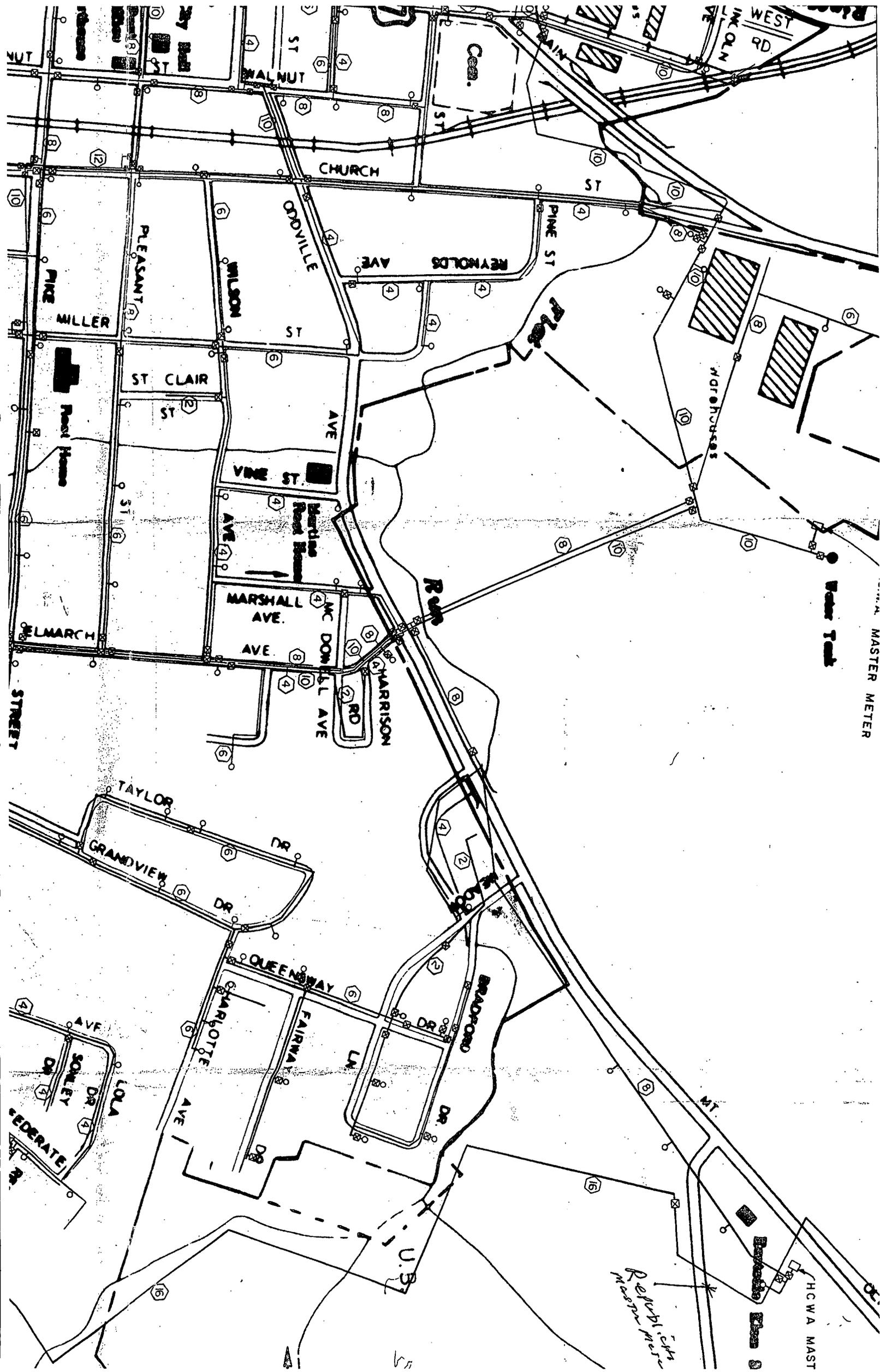
*Reports per
Massachusetts*

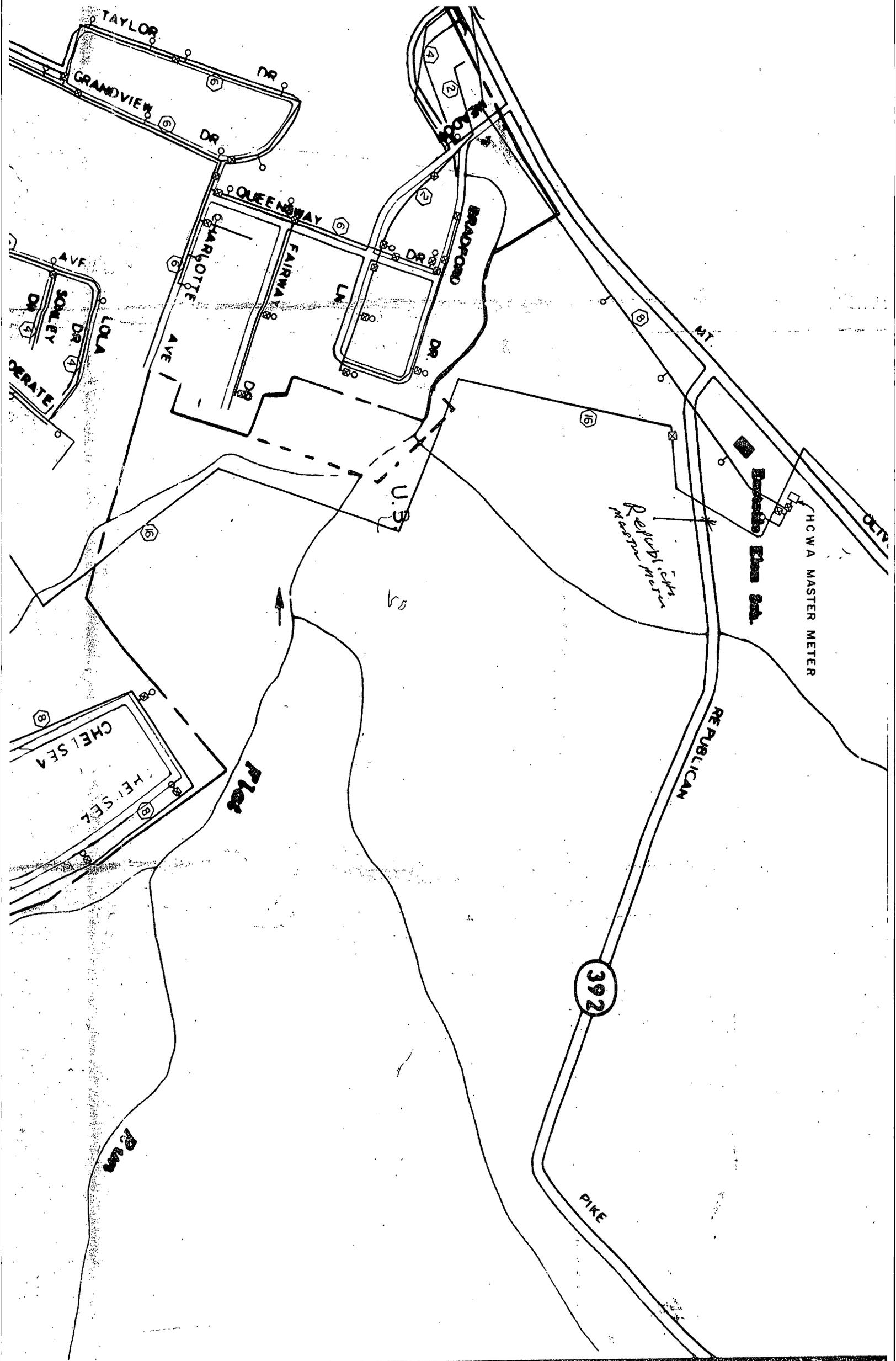
U.S.

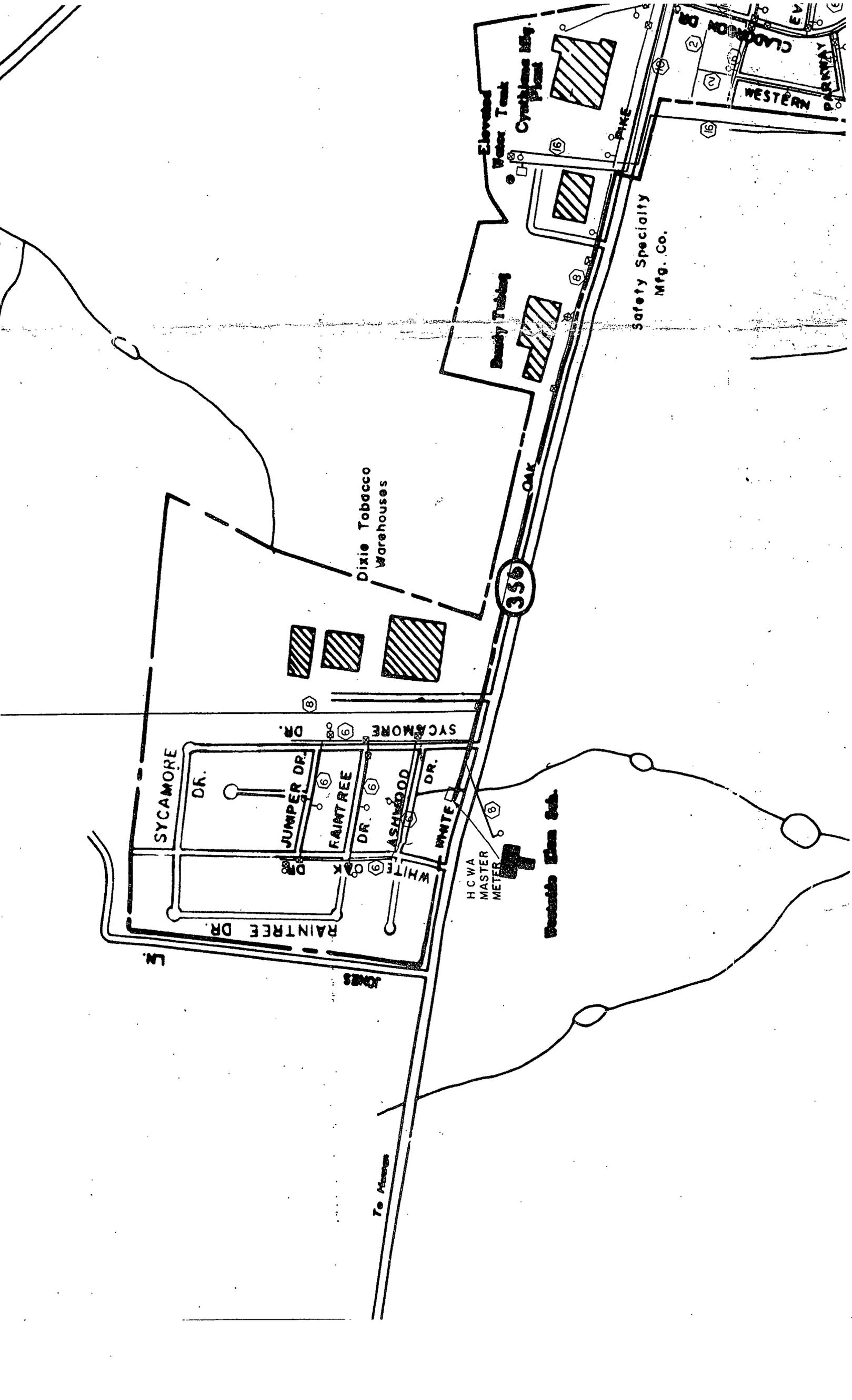




LOOK







Dixie Tobacco Warehouses

Safety Specialty Mfg. Co.

Elevated Water Tank

Cypressess Mfg. Plant

Bundy Tubing

356

OAK

PIKE

WESTERN PARKWAY

CLAYTON DR

SYCAMORE DR.

DR.

JUMPER DR.

FAINTREE DR.

ASHWOOD DR.

WHITE DR.

RAINTREE DR.

H C WA MASTER METER

Electric Meter Sub.

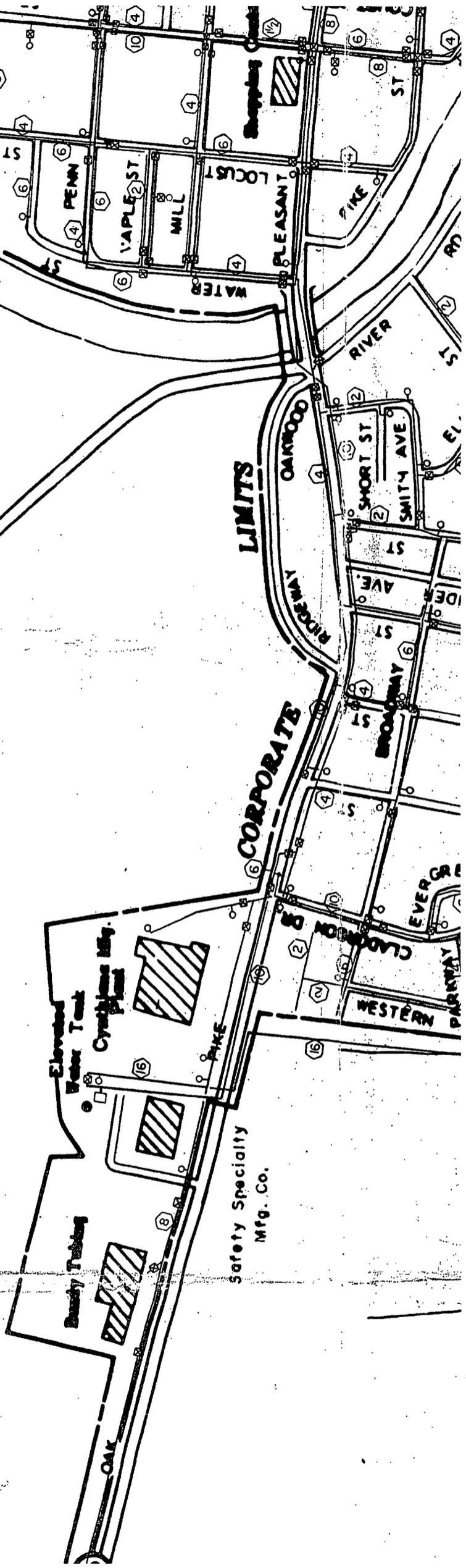
To Alton

JONES

ROAD

36

ixie Tobacco
Warehouses



Elevated
Water Tank

Cyclopedia Mfg.
Plant

Dandy Tubbing

Safety Speciality
Mfg. Co.

CORPORATE

LIMITS

PEARL

PENN ST

MAPLE ST

MILL

LOCUST

PLEASANT

RIVER

OAKWOOD

SHORT ST

SMITH AVE

IDEAL AVE

BROADWAY

WESTERN PARKWAY

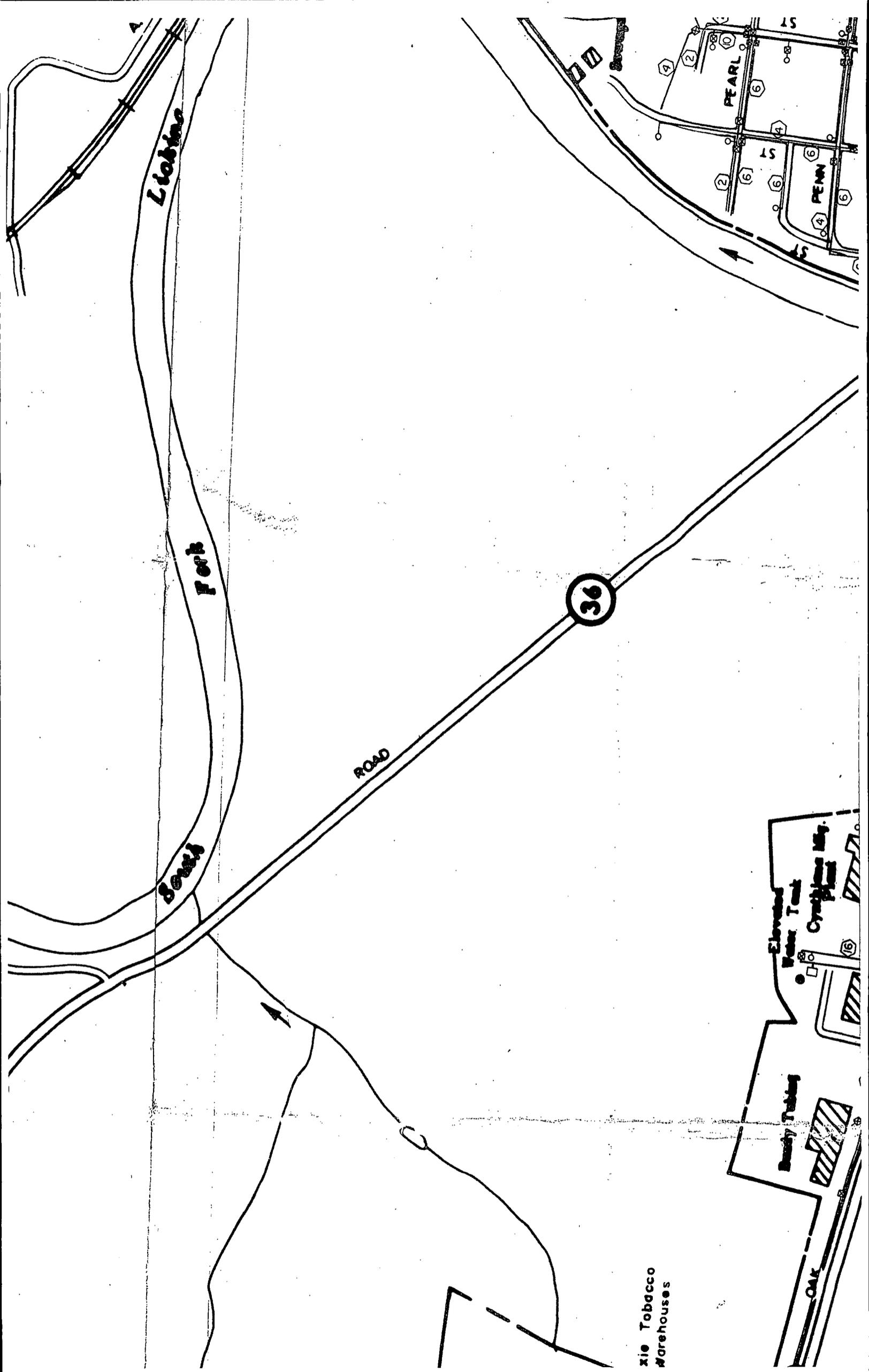
EVERETT

PINE

OAK

CLAYTON

EVERETT



Littine

Fork

South

ROAD

36

xie Tobacco Warehouses

Bundy Tubing

Elevated Water Tank
Cryogenic Mfg. Plant

PEARL

PENN

OAK

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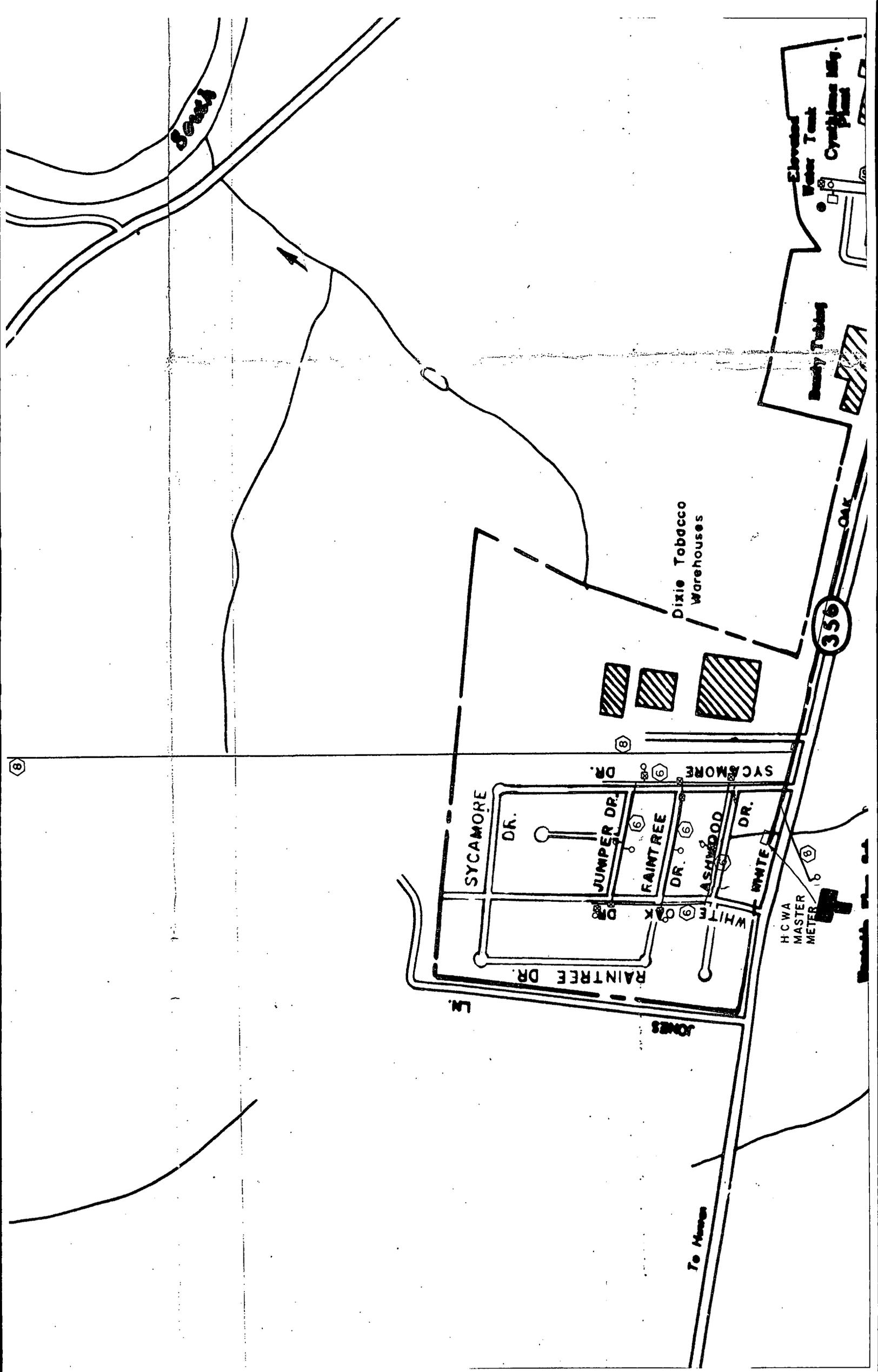
15

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15



SOUTH

356

Dixie Tobacco Warehouses

Bandy Tubing

Elevated Water Tank
Cypress Plant

SYCAMORE DR.

SYCAMORE DR.

JUMPER DR.

RAIN TREE DR.

ASHWOOD DR.

WHITE DR.

RAIN TREE DR.

JONES

To Morris

H C W A
MASTER
METER

6

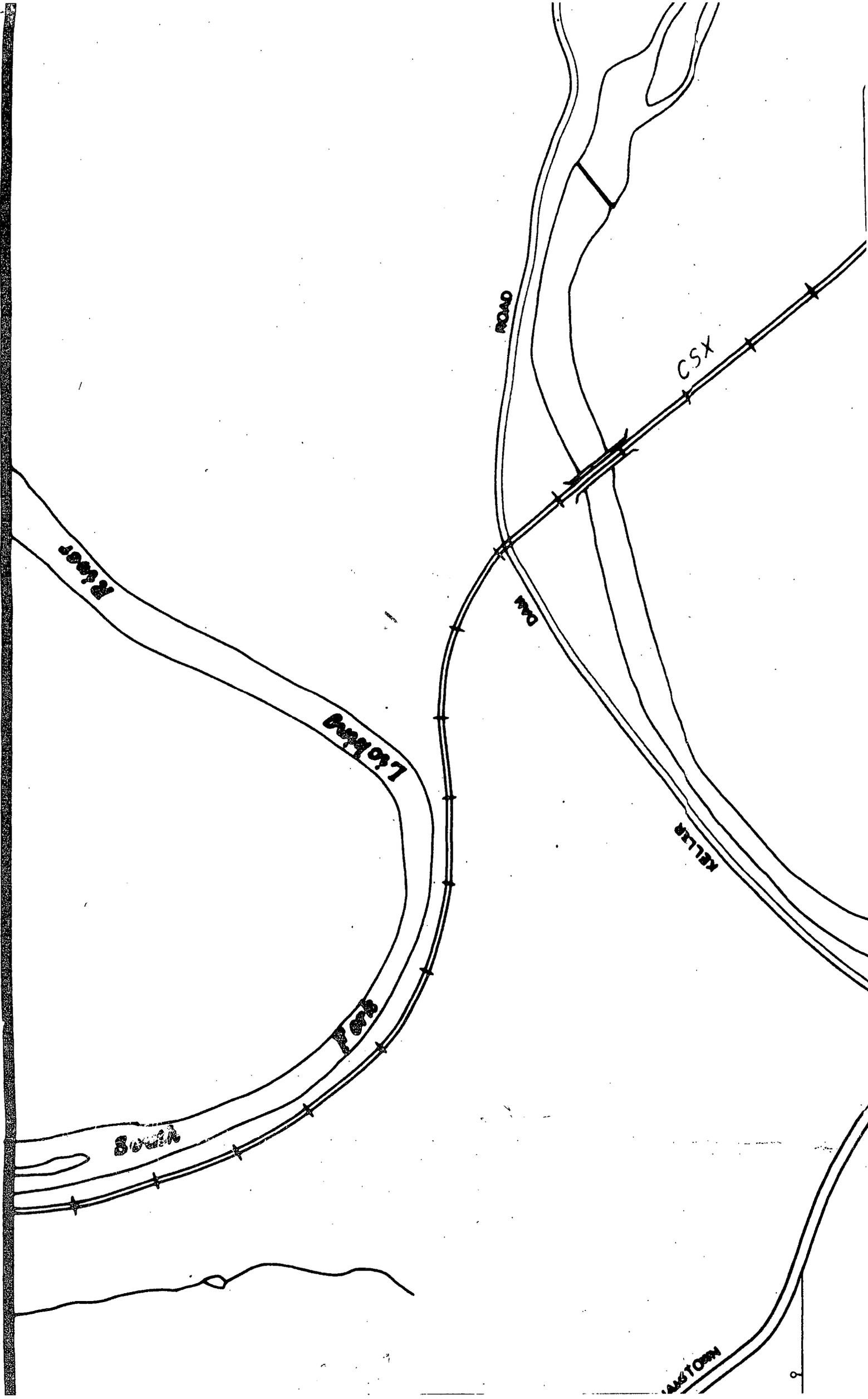
6

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6

6

6



KELLY

POB

SWA

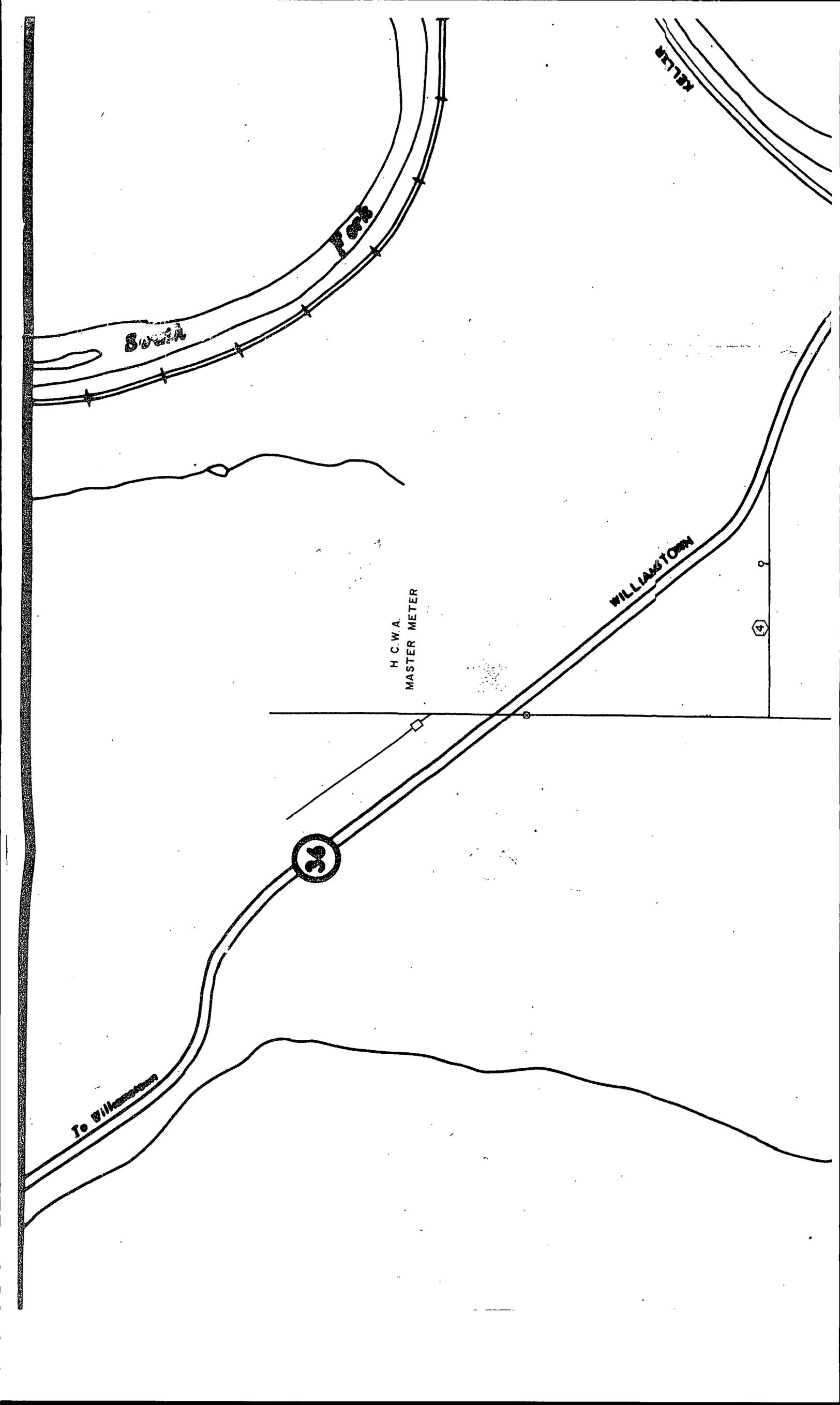
WILLIAMSTON

H C.W.A.
MASTER METER

39

To Williamston

4



COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

RECEIVED
JAN 18 2000
PUBLIC SERVICE
COMMISSION

In the Matter of:

PROPOSED ADJUSTMENT OF THE)
WHOLESALE WATER SERVICE RATES OF) ADMINISTRATIVE
THE CITY OF CYNTHIANA, KENTUCKY) CASE NO. 99-300

RESPONSE OF CITY OF CYNTHIANA
TO COMMISSION ORDER DATED JANUARY 4, 2000

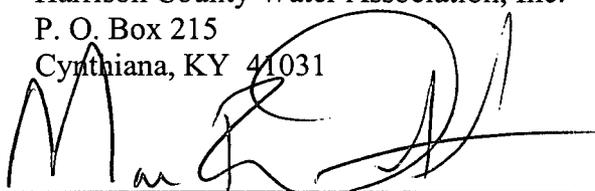
Bruce F. Clark
Mark R. Overstreet
Michele M. Whittington
STITES & HARBISON
421 West Main Street
P.O. Box 634
Frankfort, KY 40602-0634
Telephone: (502) 223-3477
COUNSEL FOR CITY OF CYNTHIANA

CERTIFICATE OF SERVICE

I hereby certify that a copy of the City of Cynthiana's Response to the Commission Order dated January 4, 2000 was served by first class mail, postage prepaid, upon the following parties of record, this 18th day of January, 2000.

Dorothy Jo Mastin, Esq.
9 South Walnut Street
Cynthiana, KY 41031

William R. Toadvine, President
Harrison County Water Association, Inc.
P. O. Box 215
Cynthiana, KY 41031


Mark R. Overstreet

CITY OF CYNTHIANA

REQUEST:

Refer to Cynthiana's Response to the Commission's Order of October 1, 1999, Item 23.

- a. Who prepared the breakdown of operating and maintenance expenses set forth in Appendix A?
- b. Does Mr. Miller agree with the allocation of these expenses between production and distribution?
- c. Using the breakdown of expenses set forth in Appendix A and making any necessary revisions, provide a schedule that shows each of the expenses categories set forth in Appendix A, the total amount of that expense, the allocation factor from Exhibit 7 applied to that expense, and the total amount of each expense allocated to Harrison County. The resulting rate from these allocations should equal the proposed wholesale rate as set forth in Exhibit 7. Identify any revisions made to the breakdown set forth in Appendix A.

RESPONSE:

- a. The allocation was prepared by Mr. Hensley based upon the City of Cynthiana's records.
- b. Mr. Miller did not verify the allocation and thus does not agree or disagree with the allocation of expenses between production and distribution. It is customary for Mr. Miller to rely upon Mr. Hensley's work because Mr. Hensley is the city's auditor.
- c. See Sheets 2 of 3 and 3 of 3 of this Response, which immediately follow.

Witness: Carlos Miller

COMMISSION'S DATA REQUEST 1-C
REVISIONS TO APPENDIX "A"

| | Water
Production | Trans. &
Dist. | Meters &
Services | Customer
Accounts |
|-------------------|-----------------------------|-------------------------------|----------------------------------|------------------------------|
| Exhibit "A" Total | \$529,233 | \$297,031 | | |
| Exhibit 5, Item 1 | | | | |
| Salaries | | (-) 745 | 745 | |
| Depreciation | | (-) 1,245 | 1,245 | |
| Exhibit 5, Item 2 | | | | |
| Salaries | | (-) 24,077 | | 24,077 |
| Salaries-Pub. | | (-) 72,045 | | 72,045 |
| Works | | | | 7,929 |
| Postage | | (-) 7,929 | | 7,929 |
| Office Supplies | | (-) 5,164 | | 5,164 |
| Other Supplies | | (-) 3,393 | | 3,393 |
| Depreciation | | (-) 5,173 | | 5,173 |
| | <u>\$529,233</u> | <u>\$177,260</u> | <u>\$1,990</u> | <u>\$117,781</u> |

COMMISSION'S DATA REQUEST 1-C
ALLOCATED COSTS

| Expense Category | Water Production | Alloc. Factor | Allocated Cost | Water Distribution | Alloc. Factor | Allocated Cost |
|-------------------------------|------------------|---------------|----------------|--------------------|---------------|----------------|
| Salaries | 108,925 | .4697 | 51,162 | 38,838 | .4404 | 17,104 |
| Overtime & Hol. Pay | 7,897 | | 3,709 | - | | - |
| Salaries/FICA/Ret.-Publ. Wks. | - | | - | - | | - |
| Employee Retirement | 8,865 | | 4,164 | 4,773 | | 2,102 |
| Med. & Hosp. Ins. | 17,708 | | 8,317 | 9,535 | | 4,199 |
| Soc. Sec. | 8,631 | | 4,054 | 4,648 | | 2,047 |
| Unemployment | - | | - | - | | - |
| Workers Comp. | 2,488 | | 1,168 | 1,340 | | 590 |
| Christmas Bonus | 276 | | 130 | 149 | | 65 |
| Repairs | 4,176 | | 1,961 | 1,963 | | 865 |
| Electricity | 49,632 | | 23,312 | - | | - |
| Hauling | - | | - | - | | - |
| Consulting Engrs. | 425 | | 200 | - | | - |
| Telephone | 3,994 | | 1,876 | - | | - |
| Insurance | 8,117 | | 3,813 | - | | - |
| Gas & Oil | - | | - | 1,221 | | 538 |
| Paging System | 468 | | 220 | - | | - |
| Columbia Gas | 16,796 | | 7,889 | - | | - |
| Postage | - | | - | - | | - |
| Chemicals | 26,839 | | 12,606 | - | | - |
| Analysis & Testing | 9,677 | | 4,545 | - | | - |
| Audit | 1,000 | | 470 | 1,000 | | 440 |
| Bond Fees | 1,000 | | 470 | - | | - |
| Office Supplies | - | | - | - | | - |
| Other Supplies | 35,071 | | 16,473 | 35,156 | | 15,483 |
| Linen Services | 432 | | 203 | - | | - |
| Travel & Training | 169 | | 79 | 91 | | 41 |
| Clothing Allowance | 2,603 | | 1,223 | 1,402 | | 617 |
| Testing Equip. | 393 | | 185 | - | | - |
| Depreciation | 201,831 | | 94,800 | 77,144 | | 33,974 |
| Amortization | 11,820 | | 5,552 | - | | - |
| | \$529,233 | | \$248,581 | \$177,260 | | \$78,065 |

CITY OF CYNTHIANA

REQUEST:

Refer to Cynthiana's Response to the Commission's Order of October 1, 1999, Item 23.

- a. What allocation factor was used to allocate chemical expense?
- b. Why should chemical expense not be allocated based on the usage factor of 0.4742?

RESPONSE:

- a. Chemical expense was allocated using the water production factor (0.4697) that was developed in Schedule 4 (Sheet 10 of 15, Response to Item 23, City of Cynthiana's Response to the Commission's Order dated October 1, 1999) of the rate study.
- b. The usage factor (0.4742) represents the ratio of water sales and is used to allocate expenses for the system's hydraulic elements such as pump stations, tanks, pressure reducing stations, etc. The water production factor is limited to expenses associated with the water treatment function and includes the cost of chemicals as well as process water use and the proportionate allocation of "unaccounted for" water based on the inch-mile ratio of the purchasing utility. Thus, the water production factor is the appropriate factor to use for allocating the cost of chemicals.

Witness: Carlos Miller

CITY OF CYNTHIANA

REQUEST:

- a. Explain why Cynthiana has retained outside counsel to prosecute its application rather than using the services of its City Attorney.
- b. Provide all documents showing that the Cynthiana City Commission has authorized the employment of outside counsel.
- c. Provide all agreements between Cynthiana and its counsel that discuss compensation for legal services to prosecute Cynthiana's application for rate adjustment.

RESPONSE:

- a. Mr. Lair serves as part-time city attorney for a nominal compensation of \$5,400. In addition to his normal duties as city attorney, Mr. Lair also provides legal services to the city for special projects such as annexation and eminent domain actions. Accordingly, Mr. Lair felt that this case was beyond the scope of his regular duties as city attorney and recommended to the Commission that outside counsel be retained. Mr. Lair also believed it was in the city's best interest that it retain counsel with experience in practice before the Public Service Commission in rate matters.
- b. See attached.
- c. No such written agreement exists.

Witness: Mayor Virgie Wells

August 10, 1999

The City of Cynthia Board of Commissioners met in regular session on August 10, 1999 at 7:00 P.M. Present were Mayor Wells, Attorney Lair, Commissioners Judy, Lancaster, and Ritchey.

Mayor Wells called the 15th meeting of the Board of Commissioners to order.

Commissioner Judy made a motion to approve the minutes as submitted. Commissioner Lancaster seconded. In favor: Commissioner Judy: yes; Commissioner Lancaster: yes; Commissioner Ritchey: yes; Mayor Wells: yes; Opposed: none. Minutes approved.

MINUTES
APPROVED

Mayor Wells recognized Commissioner of Finance, Ray Lancaster. Mr. Lancaster made a motion to pay the following bills:

BILLS

| | |
|--------------|--------------|
| General Fund | \$126,626.41 |
| Water Fund | \$ 64,585.60 |

| | |
|---------------------------|--------------|
| Cash-in-Bank General Fund | \$403,227.31 |
| Cash-in-Bank Water Fund | \$138,076.81 |

Commissioner Ritchey seconded. In favor: Commissioner Judy: yes; Commissioner Lancaster: yes; Commissioner Ritchey: yes; Mayor Wells: yes; Opposed: none. Motion carried.

Commissioner Lancaster thanked Charles H. Switzer & Associates for their help with the surplus auction. Commissioner Lancaster advised one more signature is needed for the Interlocal Agreement for the flood study.

Commissioner Judy made a motion to accept with regret the resignation of Major M. Douglas Coy as Assistant Chief of the Cynthia Police Dept. effective September 1, 1999. Major Coy has been a member of the Police Dept. for 25 years. Commissioner Ritchey seconded. In favor: Commissioner Judy: yes; Commissioner Lancaster: yes; Commissioner Ritchey: yes; Mayor Wells: yes; Opposed: none. Motion carried.

RESIGNATION
OF MAJOR M.
DOUGLAS COY

Commissioner Judy announced the following:

POLICE
DEPT.
REPORT

- City of Cynthia Police Dept. will be accepting applications for Police Officers until August 20, 1999.
- CSX Railroad is working on the Pearl St. crossing. This crossing may be closed for as long as two weeks.
- The Police Dept. has answered many calls from concerned citizens about individuals in violation of the Class III Water Advisory. The Police Dept. has been instructed to contact offenders and inform them of the water advisory and ask for their voluntary cooperation. In the event the advisory is upgraded to a more serious level then more stringent measures will have to be issued.
- Inter-Media should have issued all letters of apology for the collection agency letters. Matter has been corrected.
- \$2,854.32 has been received for the Harrison County Volunteer Fire Dept. Photo Imaging Camera.

Commissioner Judy requested an executive session to discuss personnel matters.

Commissioner Ritchey reported Public Works had lost an individual, and the department is one man short. Commissioner Ritchey made a motion to make an offer of employment to an individual for Laborer I in the Public

MOTION TO
MAKE AN
OFFER OF

Works Dept. subject to pre-employment requirements. Commissioner Judy seconded. In favor: Commissioner Judy: yes; Commissioner Lancaster: yes; Commissioner Ritchey: yes; Mayor Wells: yes; Opposed: none. Motion carried.

EMPLOYMENT

Commissioner Ritchey reported milling of streets is complete, and Hinkle should start blacktopping in the next couple of weeks.

Commissioner Ritchey advised the Main Licking water pump has been running continuously for several days with the exception of two shutdowns caused by electrical outages. Stoner and Hinkson Creeks are not running at all, and there is no rain in the forecast. Cave Run Lake is releasing water daily, and in order to keep the pool at the Water Treatment Plant at its current level, Commissioner Ritchey suggested the pump be shut down at 6:00 A.M. Saturday, August 14, 1999 and start up again at 12:00 Noon Sunday, August 15, 1999. This will allow time to service the pump.

MAIN
LICKING
PUMP

The Board agreed with Commissioner Ritchey. He commended the staff manning the pump, and advised he would advise the staff of the shutdown period.

The Board commended the public for cooperating and conserving our water supply.

Mayor Wells reported on the following:

MAYOR'S
REPORT

- The City of Cynthiana has received an application for Commonwealth of Kentucky Justice grant. The City will apply.
- Received correspondence from Ora Main of Quest Engineers, Inc. re: WWTP.
- Community Action has a summer cooling program to assist low-income families with cooling.
- Congratulations to Lisa Hurst of The Cynthiana Democrat on the birth of her son, Benjamin Earl Hurst.
- The Republican Party of Harrison County will host an elephant stomp with Ernie Fletcher present on August 21, 1999.
- Received a letter of thanks from Joe Kearns, Marla Slade, the Harrison County Literacy Society, Battle of Cynthiana Committee, and the Maysville Community College.
- Received five air conditioners from McDonald's and distributed to individuals who had no means of cooling. Mayor Wells wrote a letter of thanks to Mr. Healy who owns McDonald's expressing appreciation for their generosity.
- Mayor Wells wrote a letter of recommendation for Inez Burgin.
- Mayor Wells wrote a letter to a property owner about roach infestation and garbage removal.
- Letters re: water and sewer lines to the Woods property have been mailed to the Division of Water for approval.
- Participated in the Relay for Life last Friday night. \$58,000.00 was raised for cancer research.
- Mayor Wells was on August 9 Coffee Break with Jeff Middleton.
- Mayor Wells toured the new addition to Harrison Memorial Hospital.
- Mayor Wells advised the Ethics Committee they would be receiving a copy of the new Personnel Policies and Procedures when approved.

Mayor Wells advised she had attended the following meetings:

- The five year anniversary of the Harrison County Museum on July 30, 1999.
- S. O. Ross Park Board meeting on August 2, 1999 at 7:00 P.M. The Board is planning a big work day on Saturday August 28, 1999.
- Attended the Peacemaker's meeting getting ready for the Peacemaker's Festival August 14, 1999.

- Met with Doug Rigsby of BGADD to discuss the Water Distribution Project.
- Attended the Industrial Authority meeting on Friday, August 6, 1999.
- Attended a Community Collaborative meeting last night to discuss the safety and security of Harrison County Schools and the students of our community.
- Attended the Community Orienting Policing seminar August 10, 1999 at Platters.
- Attended a meeting with Rumpke, Judge Peak, and Clyde Hicks re: transfer station.
- The City of Cynthiana is working with other communities to try to clear up some of the problems with FrontierVision.

Mayor Wells advised Paula Plummer has consented to serve on the Planning and Zoning Board of Adjustment. Commissioner Judy made a motion to appoint Paula Plummer to the Planning and Zoning Board of Adjustment. Her term will end May 23, 2002. Commissioner Lancaster seconded. In favor: Commissioner Judy: yes; Commissioner Lancaster: yes; Commissioner Ritchey: yes; Mayor Wells: yes; Opposed: none. Motion carried.

PAULA
PLUMMER
APPOINTED
TO P & Z
BOARD OF
ADJUSTMENT

Mayor Wells advised Kentucky League of Cities is sponsoring a Government Youth Council and requested each community appoint a representative. Mayor Wells advised Ms. Sarah Fischer has agreed to serve in this capacity. She is a student at Harrison County High School and was recommended by the staff.

SARAH
FISCHER
APPOINTED
TO THE FIRST
GOVERNMENT
YOUTH COUNCIL

Mayor Wells recognized Ms. Alice Allen who is a member of the Peacemaker's Committee. Ms. Allen advised the event will be held August 14 behind Southside School from 4:00 P.M. to 10:00 P.M. There will be music, food, rides, a petting zoo, and a silent auction.

Mayor Wells advised demolition of the Marshall property is almost completed.

The Board of Commissioners wished Fire Chief Terry Stinson a speedy recovery from an accident that almost severed his thumb.

Commissioner Judy made a motion to move to executive session for the purpose of discussing personnel and the purchase of property. Commissioner Ritchey seconded. In favor: Commissioner Judy: yes; Commissioner Lancaster: yes; Commissioner Ritchey: yes; Mayor Wells: yes; Opposed: none. Motion carried.

EXECUTIVE
SESSION

Commissioner Judy made a motion to return to regular session. Commissioner Lancaster seconded. In favor: Commissioner Judy: yes; Commissioner Lancaster: yes; Commissioner Ritchey: yes; Mayor Wells: yes; Opposed: none. Motion carried.

MOTION TO
RETURN TO
REGULAR
SESSION

Mayor Wells advised that while in executive session personnel was discussed. Commissioner Judy made a motion to make an offer of employment to an individual for a part-time dispatcher subject to pre-employment requirements. Commissioner Lancaster seconded. In favor: Commissioner Judy: yes; Commissioner Lancaster: yes; Commissioner Ritchey: yes; Mayor Wells: yes; Opposed: none. Motion carried.

OFFER OF
EMPLOYMENT
FOR PART-TIME
DISPATCHER

Mayor Wells advised legal matters were also discussed. Commissioner Lancaster made a motion authorizing Mayor Wells to execute a contract to purchase property on behalf of the City. Commissioner Judy seconded. In favor: Commissioner Judy: yes; Commissioner Lancaster: yes; Commissioner Ritchey: yes; Mayor Wells: yes; Opposed: none. Motion

MOTION TO
AUTHORIZE
MAYOR TO
EXECUTE
CONTRACT

carried.

FOR PROPERTY

Commissioner Judy made a motion to empower Mayor Wells to authorize Attorney John Lair to contact a specialist attorney to provide technical assistance for the City. Commissioner Lancaster seconded. In favor: Commissioner Judy: yes; Commissioner Lancaster: yes; Commissioner Ritchey: yes; Mayor Wells: yes; Opposed: none. Motion carried.

MOTION TO
CONTACT A
SPECIALIST
ATTORNEY

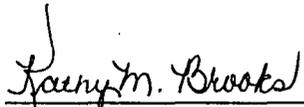
Attorney Lair read Resolution 1999-#25 authorizing and empowering the Mayor to execute a contact with the Corps. of Engineers to proceed with the Flood Control Study as described in Ordinance #1296.

RESOLUTION
1999-#25

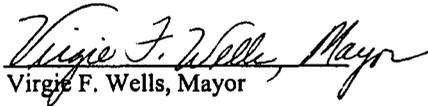
Commissioner Lancaster made a motion to approve Resolution 1999-#25. Commissioner Ritchey seconded. In favor: Commissioner Judy: yes; Commissioner Lancaster: yes; Commissioner Ritchey: yes; Mayor Wells: yes; Opposed: none. Resolution carried.

ADJOURNMENT

There being no further business to discuss, Commissioner Ritchey made a motion to adjourn. Commissioner Lancaster seconded. In favor: Commissioner Judy: yes; Commissioner Lancaster: yes; Commissioner Ritchey: yes; Mayor Wells: yes; Opposed: none. Meeting adjourned.



Kathy M. Brooks, Deputy City Clerk



Virgie F. Wells, Mayor

CITY OF CYNTHIANA

REQUEST:

Refer to Cynthiana's Response to the Commission's Order of October 1, 1999, Item 23, Exhibit 7. Why is the proposed allocation of 100 percent of rate case expense to Harrison County Water Association ("Harrison County") appropriate?

RESPONSE:

This case is limited to an adjustment to Harrison County Water Association's rates, which are the only rates regulated by this Commission, and thus it is appropriate that the expense of the case be assigned in a like fashion. See also, Item 23, footnote 2, Sheet 13 of 15 of the City of Cynthiana's Response to the Commission's Order of October 1, 1999.

Witness: Carlos Miller

CITY OF CYNTHIANA

REQUEST:

Refer to Cynthiana's Response to the Commission's Order of October 1, 1999, Item 23, Exhibit 7. Why is the use of the water production allocation factor of .4697 more appropriate when allocating depreciation expense on the proposed raw water pump amount allocated to Harrison County than the use of the transmission factor of 0.4404?

RESPONSE:

The raw water pump is not related to or a part of the city's treated water transmission system. Rather, it is an integral part of the water treatment process. The raw water pump produces water that is used in the treatment process or which is otherwise not sold to various customers. The Water Production factor accounts for plant use and other "unaccounted for" water that is produced using the raw water pump. On the other hand, the transmission factor does not account for these factors. Instead, it assigns to the purchasing utility a proportionate share of the seller's transmission and distribution system, which does not include the raw water pump.

Witness: Carlos Miller

CITY OF CYNTHIANA

REQUEST:

Refer to Cynthiana's Response to the Commission's Order of November 29, 1999, Item 21. Provide a detailed itemization of Cynthiana's rate case expenses. This itemization shall, at a minimum, identify each service for which Cynthiana was billed, the hourly rate for such service, and the number of hours worked.

RESPONSE:

See attached.

Witness: Jerry Hensley; Carlos Miller; Mayor Virgie Wells

STITES & HARBISON
Itemization of Time and Expenses
City of Cynthiana

I. Preliminary Activities to prepare Application to Adjust Rates:

| | | |
|------------------------|-------------------|-----------|
| Bruce F. Clark | 10.4 hrs. @ \$195 | \$2028.00 |
| Michele M. Whittington | 8.9 hrs. @ \$160 | 1424.00 |
| Peggy J. Tipton | 8.0 hrs. @ \$ 50 | 400.00 |

II. Travel and meetings associated with preparation of Application to Adjust Rates:

| | | |
|-----------------|-------------------|-----------|
| Bruce F. Clark | 14.4 hrs. @ \$195 | \$2808.00 |
| Peggy J. Tipton | 4.5 hrs. @ \$ 50 | 225.00 |

III. Preparation of Responses to Commission's Order dated October 1, 1999 and Harrison County Water Association's First Set of Data Requests:

| | | |
|------------------------|-------------------|-----------|
| Bruce F. Clark | 24.0 hrs. @ \$195 | \$4680.00 |
| Michele M. Whittington | 15.7 hrs. @ \$160 | 2512.00 |
| Peggy J. Tipton | 41.0 hrs. @ \$ 50 | 2050.00 |

IV. Preparation of Responses to Commission's Order dated November 29, 1999 and Harrison County Water District's Second Set of Data Requests:

| | | |
|--------------------|------------------|-----------|
| Bruce F. Clark | 4.6 hrs. @ \$195 | \$ 897.00 |
| Mark R. Overstreet | 34.4 hrs. @ 165 | 5676.00 |

EXPENSES

| | |
|--------------|-------------|
| Copies | 31.20 |
| | 1,005.18 |
| | 32.72 |
| | 420.60 |
| | 292.42 |
| | 25.76 |
| | 226.76 |
| | 141.57 |
| | <u>2.12</u> |
| TOTAL COPIES | \$2,178.33 |

| | |
|---------|--------------|
| Mileage | 15.50 |
| | 2.48 |
| | 18.60 |
| | 31.50 |
| | 31.00 |
| | 31.00 |
| | 18.60 |
| | <u>62.00</u> |
| | \$ 210.68 |

| | |
|----------------|------------|
| Total Expenses | \$2,389.01 |
|----------------|------------|

KENVIRONS, INC.
ITEMIZATION OF TIME AND EXPENSES
CITY OF CYNTHIANA

I. Travel and Meetings for Cost of Service Study
Carlos Miller, P.E. 7 hrs. @ \$100/hr. \$ 700.00

II. Research and Prepare Cost of Service Study
Carlos Miller, P.E. 31 hrs. @ \$100/hr. \$3,100.00

EXPENSES

Mileage \$ 63.90
Telephone .60

TOTAL EXPENSES \$ 64.50

ENGLAND & HENSLEY
ITEMIZATION OF TIME AND EXPENSES
CITY OF CYNTHIANA

| <u>INVOICE DATE</u> | <u>INVOICE AMOUNT</u> | <u>DESCRIPTION OF WORK</u> |
|---------------------|-----------------------|--|
| 10/31/99 | \$3,450.00 | Analysis of water costs and assistance with determination of water production and distribution costs |
| 11/31/99 | 1,250.00 | Water cost analysis and responses to requests for information for attorneys |
| 12/31/99 | 2,527.00 | Assist attorneys with responses to PSC requests |

TIME CHARGES

| | Hours | Average Rate | Amount |
|--------------------------|--------------|---------------------|---------------|
| Jerry W. Hensley,
CPA | 72.4 | 70 | \$5,062.00 |
| Edward T. Maley,
CPA | 17.0 | 65 | 965.00 |
| Other Staff | 26.4 | 45 | 1,188.00 |
| Clerical | 1.5 | 28 | 42.00 |

CITY OF CYNTHIANA

REQUEST:

Refer to Cynthiana's Response to the Commission's Order of November 29, 1999, Item 21.

- a. Why has the estimate of "rate case legal services" been increased to \$35,000?
- b. What is the "evolving complexity of the case" to which Cynthiana refers in its response?

RESPONSE:

- a. The original estimate of \$15,000 in rate case legal services, although made in good faith, did not take into account that this case was the city's first rate case. In addition, the estimate was prepared prior to the completion of the work on the first set of data requests. Once that work was completed, counsel reviewed the amount of time required to compile the responses to the first set of data requests and adjusted the estimate in light of the two remaining sets of data requests, as well as the discovery afforded the City by the procedural order.
- b. The term "evolving complexity of the case" refers to the number of data requests received, as well as certain issues such as accounting for the drought, the bond allocations, and allocation of public works employees' time.

Witness: Mayor Virgie Wells; Charleen McIlvain

CITY OF CYNTHIANA

REQUEST:

Refer to Cynthiana's Response to the Commission's Order of November 29, 1999, Item 20, Sheet 1. This sheet is the first sheet of Cynthiana's Response to the Commission's Order of November 29, 1999, Item 21. Provide the first sheet of Cynthiana's Response to Item 20.

RESPONSE:

The sheet immediately follows this Response. The documents referred to in Cynthiana's Response to the Commission's Order of November 29, 1999, Item 20, Sheet 2 are attached hereto. The City apologizes for any inconvenience caused by its oversight.

Witness: Carlos Miller; Joe Lewis

CITY OF CYNTHIANA

REQUEST:

- a. At page 5 of his Direct Testimony, Mr. Miller states that Cynthiana will install a back-up raw water pump in January 2000 at an estimated cost of \$143,185. Provide supporting documentation for the estimated cost and explain why a back-up pump needs to be installed.
- b. Cynthiana's depreciation schedule shows that a new motor and pump was depreciated over 20 years and an "intake pumping imp." was depreciated over 33 years. Explain why a 10-year depreciation life is appropriate for this proposed pump.
- c. In Case No. 10481 (Notice of Adjustment of the Rates of Kentucky-American Water Company Effective on February 2, 1989, Order issued August 22, 1989), the Commission gave notice that "adjustments for post test-period additions to plant in service should not be requested unless all revenues, expenses, rate base, and capital items have been updated to the same period as the plant additions."
 - (1) Has Cynthiana updated its revenues, expenses, rate base, and capital to the same period as its system improvement?
 - (2) If yes, identify each item that has been updated to reflect the same period.

RESPONSE:

- a. There is only one raw water pump at the main Licking River intake facility. It is recommended and standard industry practice that all raw and finished water pump stations contain duplex pump installation. The reason is that any mechanical equipment can fail or break down. It is therefore imperative that raw and finished water pumping systems employ redundancy to allow continuation of service in the event one of the pumps fails.

When the pump station was constructed, space for the second pump was provided. The City realizes the risk associated with using only one pump and is fulfilling the initial intent of the pump station design.

Witness: Carlos Miller, Joe Lewis, Quest engineers

RAW WATER PUMP STATION CYNTHIANA, KENTUCKY

October 28, 1999

Option A:

Similar pump - 2100 gpm, 470' TDH, 2400 volt

| | |
|----------------|---------------|
| Pump and motor | \$ 42,495 |
| Piping | 6,220 |
| Crane | 6,000 |
| Labor | 10,400 |
| Controller | <u>45,200</u> |
| Subtotal | \$110,315 |
| Miscellaneous | <u>11,030</u> |
| Subtotal | \$121,345 |
| OH&P(18%) | <u>21,840</u> |
| Total | \$143,185 |

Option B:

Similar pump - 2100 gpm, 470' TDH, 480 volt

| | |
|-------------------------|---------------|
| Pump and motor | \$38,500 |
| Motor for existing pump | 14,180 |
| Piping | 6,220 |
| Crane | 7,200 |
| Labor | 15,600 |
| Controller (2) | <u>75,000</u> |
| Subtotal | \$156,700 |
| Miscellaneous | <u>15,670</u> |
| Subtotal | \$172,370 |
| OH&P(18%) | <u>31,030</u> |
| Total | \$203,400 |

Quest Engineers, Inc.

CYNTHIANA, RAW WATER PUMP STATION

JOB: I have summarized two possible corrective Alternates for Cynthiana's Raw Water Pump Problems:

ALTERNATE "A", Install Another pump identical to the pump they now have, and connect the required piping.

Ken Haer with R.H. Maloney Co. Inc. has given us 3 different pump manufacturers along with pricing for comparison.

Duplicate Pump to what they now have:

- 1. Gould's Pump Model 14K410, \$42,495.⁰⁰
350 H.P., 1800 RPM, 2400 V U.S. Motor
- 2. Flouxy Close Coupled VT Pump Model K402H, \$36,602.⁰⁰
350 H.P., 1800 RPM, VHS NEE 2400 V motor
- 3. American Turbine Short Coupled Pump, 14M230, \$30,829.⁰⁰
350 H.P., 1800 RPM, 2400 volt motor

Additional Piping, valves etc.

| | |
|---|------------------------------|
| 12" MJ BFL W/ BOX | 1500. ⁰⁰ |
| 12" x 16" REDUCER | 450. ⁰⁰ |
| 16" MJ 45° BEND | 540. ⁰⁰ |
| 16" MJ OUPP, 1 section of Pipe | 490. ⁰⁰ |
| Labor 3 men, 3 days @ 45 ⁰⁰ /Hr. | 3240. ⁰⁰ |
| | \$6,220.⁰⁰ |

LABOR COST TO INSTALL NEW PUMP & MOTOR:

CRANE 40hr @ 150⁰⁰/hr = \$6,000⁰⁰
Labor 4 men x 40 hr @ 65⁰⁰/hr = \$10,400⁰⁰

R.H.MALONEY CO. INC.

PO Box 6725

Louisville, KY 40206

Phone 502-426-2566 * Fax 502-426-2841 • rhmco@adept.net

RHMCO Quote #3784A

10/8/99

Quest Engineers
881 Corporate Dr.
Lexington, KY 40503

Attn. Monty Biddle
Re: Raw Water Vertical Turbine
2100 gpm @ 470' TDH

We would offer the following for your review:

Duplicate Pump:

One (1) - Goulds Pump Model 14HMO duplicate pump per s/n #309597, 6 stage, 52' OAL, complete w/ 12" type U fabricated discharge head, type AR flanged coupling, 1-11/16 x 2-1/2 x 12 flanged column, 416 shafting, underground discharge and galvanized strainer, 350 Hp WP1 1800 rpm VHS NRR 2300v US motor.

PRICE.....\$42,495.00

One (1) - Goulds Pump Model 14HMO, 6 stage, 52' OAL complete w/ 12" type U fab discharge head, type AR flanged coupling, 1-11/16 x 2-1/2 x 12 flanged column, 416 shafting, underground discharge and galvanized strainer, 350 Hp WP1 1800 rpm VHS NRR 480v US motor.

PRICE.....\$38,501.00

FOB: Factory
Delivery: 12-14 weeks ARO & drawing approval.
Terms: Net/30 days subject to Form 100 attached.

Best regards,



Ken Hoar
R.H.Maloney Co. Inc.

CITY OF CYNTHIANA

REQUEST:

Refer to Cynthiana's Response to the Commission's Order of November 29, 1999, Item 20(c).

- a.
 - (1) Does Cynthiana intend to update its revenues, expenses and capital to the time period in which the proposed raw water pump is acquired and placed into service?
 - (2) If yes, state when Cynthiana intends to submit this information to the Commission.
- b. If Cynthiana does not intend to update these items, explain why the Commission should deviate from its decision in Case No. 10481 (Case No. 10481, Notice of Adjustment of the Rates of Kentucky-American Water Company Effective on February 2, 1989 (August 22, 1989)) and allow the proposed adjustments for the acquisition and installation of the proposed raw water pump for rate-making purposes?

RESPONSE:

- a. The city is studying updating its revenues, expenses and capital to the time period in which the raw water pump is acquired and placed in service. If it does so, it expects to provide the information on or before January 31, 2000.
- b. The raw water pump is duplicative of the existing pump and will be installed in accordance with the engineer's recommendations as a means of providing back up if the existing pump fails. Because the pump will be used only in place of the existing pump, it should not affect the city's revenues, and the city is not seeking to recover any costs (other than depreciation) associated with the pump. Accordingly, the Commission should deviate from its decision in Case No. 10481, *Notice of Adjustment of the Rates of Kentucky-American Water Company Effective on February 2, 1989* (August 22, 1989).

Witness: Carlos Miller

CITY OF CYNTHIANA

REQUEST:

- a. Does Cynthiana intend to file a revised rate schedule to reflect its current proposed rate of \$2.20 per 1,000 gallons?
- b. If no, why not?

RESPONSE:

- a. Yes. The schedule will be filed on or about January 31, 2000.
- b. Not applicable.

Witness: Mayor Virgie Wells

CITY OF CYNTHIANA

REQUEST:

Refer to Cynthiana's Response to the Commission's Order of November 29, 1999, Item 2. In light of the Commission's decision in Case No. 96-616 (Case No. 96-616, The Application of Winchester Municipal Utilities for Approval of the Collection of System Development Charges (October 3, 1997)), does Cynthiana intend to enact an ordinance setting forth its proposed rate?

RESPONSE:

Yes. At a special meeting on August 19, 1999, the City of Cynthiana Board of Commissioners unanimously ratified and confirmed the City's application, as filed with the Commission, to increase the rate charged Harrison County Water District. A copy of the minutes of the August 19, 1999 Special Meeting is attached to this Response.

It is anticipated that the amended rate request will be considered by the City of Cynthiana Board of Commissioners at its next meeting, and is expected to become effective on or about January 27, 2000. A copy of the ordinance as enacted will be filed with the Commission and served on counsel following its enactment.

Witness: Mayor Virgie Wells

SPECIAL MEETING
August 19, 1999

The City of Cynthiana Board of Commissioners met in a special session on August 19, 1999 at 8:30 P.M. Present were Mayor Wells, Attorney Lair, Commissioners Judy, Lancaster, McIlvain.

Mayor Wells called the meeting to order and stated the purpose of this meeting was to read ordinances setting vehicle and property rates, accept Personnel Policies and Procedures, litigation, and personnel matters.

Attorney Lair advised City had forwarded a proposed water rate increase to the Public Service Commission without the approval of the Board. He advised the Board needed to ratify the Mayor's action.

Commissioner McIlvain made a motion to ratify and confirm rate proposal to the Public Service Commission same having been mailed July 7, 1999 and received July 8, 1999 by the Public Service Commission. Commissioner Lancaster seconded. In favor: Commissioner Judy: yes; Commissioner Lancaster: yes; Commissioner McIlvain: yes; Mayor Wells: yes; Opposed: none. Motion carried.

Attorney Lair read Ordinance #1299 setting the ad valorem tax rate on vehicles at 16 cents on each and every \$100.00 worth of motor vehicles effective January 1, 2000. Commissioner Lancaster made a motion to accept the first reading of Ordinance #1299. Commissioner Judy seconded. In favor: Commissioner Judy: yes; Commissioner Lancaster: yes; Commissioner McIlvain: yes; Mayor Wells: yes; Opposed: none.

Attorney Lair read Ordinance #1300 levying a property tax rate on real, personal, and mixed property for the City of Cynthiana, Kentucky for the year 1999 at 12.9 cents on each and every \$100.00 worth of taxable real property, and 12.6 cents on each and every \$100.00 worth of taxable personal and mixed property. Commissioner Judy made a motion to accept the first reading of Ordinance #1300. Commissioner Lancaster seconded. In favor: Commissioner Judy: yes; Commissioner Lancaster: yes; Commissioner McIlvain: yes; Mayor Wells: yes; Opposed: none. Motion carried.

Commissioner Ritchey advised he was late for the meeting due to a problem with the pump at the Main Licking River. The pump was temporarily shut down due to an electrical surge, but in full operation now. Commissioner Ritchey also advised personnel will be going to 8 hour shifts instead of 12 hour shifts.

A discussion was held regarding testing procedures in the Police and Fire Department. Attorney Lair read Ordinance #1301 updating Personnel Policies and Procedures, Compensation Plan, and Classification Plan. Commissioner McIlvain made a motion to accept the first reading of Ordinance #1301. Commissioner Lancaster seconded. In favor: Commissioner Judy: yes; Commissioner Lancaster: yes; Commissioner McIlvain: yes; Commissioner Ritchey: yes; Mayor Wells: yes; Opposed: none. Motion carried.

Mayor Wells advised she would like to participate in the School-To-Work Program. Kelly Gibson, the daughter of Asst. Chief Mike Gibson, is scheduled to work in the City Clerk's office. Mayor Wells would like approval from the Board. Commissioner Lancaster and Attorney Lair questioned if workers from the program were covered by the City's liability insurance and if she was to be compensated by the City. City Clerk, Charleen McIlvain, advised Inez Burgin is to send paperwork on the project. She will advise.

PURPOSE
OF MEETINGMOTION TO
RATIFY &
CONFIRM
RATE INCREASE
ON WATER
RATESORDINANCE
#1299
(First reading)ORDINANCE
#1300
(First reading)ORDINANCE
#1301
(First reading)SCHOOL-TO-
WORK
PROGRAM

237

Commissioner Judy made a motion to move to executive session for the purpose of discussing personnel. Commissioner McIlvain seconded. In favor: Commissioner Judy: yes; Commissioner Lancaster: yes; Commissioner McIlvain: yes; Commissioner Ritchey: yes; Mayor Wells: yes; Opposed: none. Motion carried.

EXECUTIVE
SESSION

Commissioner Judy made a motion to return to regular session. Commissioner McIlvain seconded. In favor: Commissioner Judy: yes; Commissioner Lancaster: yes; Commissioner McIlvain: Commissioner Ritchey: yes; Mayor Wells: yes; Opposed: none. Motion carried.

MOTION TO
RETURN TO
REGULAR
SESSION

Mayor Wells advised personnel matters were discussed, but no action taken at this time.

There being no further business to discuss, Commissioner Lancaster made a motion to adjourn. Commissioner McIlvain seconded. In favor: Commissioner Judy: yes; Commissioner Lancaster: yes; Commissioner McIlvain: yes; Commissioner Ritchey: yes; Mayor Wells: yes; Opposed: none. Meeting adjourned.

ADJOURN

Kathy M. Brooks
Kathy M. Brooks, Deputy City Clerk

Virgie F. Wells, Mayor
Virgie F. Wells, Mayor

CITY OF CYNTHIANA

REQUEST:

- a. List and describe all discussions between Cynthiana and Harrison County since January 1, 1998 regarding changes in Cynthiana's wholesale water rate.
- b. Provide all documents, including correspondence and internal memorandum, in which changes to Cynthiana's existing wholesale water rate were discussed.

RESPONSE:

a. Over the years there have been a number of informal discussions between the City of Cynthiana and HCWA regarding Harrison County Water Association's increasing usage of water, the loss of revenue that Cynthiana has incurred as a result of the low rates charged to HCWA, and the need to increase the rates charged to HCWA by Cynthiana. During his tenure as mayor of Cynthiana, Mayor Brown had several informal discussions with Bernard Midden of HCWA regarding these issues. The exact dates of these conversations are unknown. In November of 1998, Mayor Brown, Clyde Hicks and City Attorney John Lair attended a meeting with the HCWA on the water rate issue. This meeting is noted in the November 23, 1998 minutes of the Board of Commissioner's meeting which are attached as part of Item 12(b). The subsequent meeting referred to in the minutes was never held.

Since assuming office in January of 1999, Mayor Wells has continued to discuss with HCWA Cynthiana's need to increase Harrison County Water Association's water rates in order to cover Cynthiana's production costs. On May 28, 1999, Mayor Wells met with William Toadvine, President of the HCWA to discuss the change in Cynthiana's rate schedule. Mayor Wells told Mr. Toadvine that Cynthiana could not continue to carry the loss caused by the existing low rates. Mr. Toadvine and Mayor Wells discussed a number of water-related issues, including problems with water pressure at the Housing Authority property serviced by HCWA and the need to raise chlorine levels at the master meters.

HCWA was formally notified of Cynthiana's rate change by a letter dated June 2, 1999 from Mayor Wells to Mr. Toadvine, attached as part of Item 12(b).

- b. See attached.

Witness: Mayor Virgie Wells

November 24, 1998

The City of Cynthiana Board of Commissioners met in regular session on November 24, 1998 at 7:00 P.M. at City Hall. Present were Mayor Brown, Attorney Lair, Commissioners Clayton, Ritchey, Taylor, and Wells.

Mayor Brown called the meeting to order. Commissioner Ritchey advised the minutes should be corrected as follows:

MINUTES
CORRECTED
&
APPROVED

Reference: MOBILE HOME PARK

"Commissioner Ritchey reported a total of 16 mobile homes were sold, but all would not stay within the County."

Mayor Brown requested the following correction be made:

Reference: ACQUISITION OF REAL ESTATE

"Commissioner Wells made a motion authorizing the Mayor to exercise land option with two property owners regarding acquisition of two parcels of real property for public use."

Commissioner Ritchey made a motion to correct minutes as stated. Commissioner Taylor seconded. In favor: Commissioner Clayton: yes; Commissioner Ritchey: yes; Commissioner Taylor: yes; Commissioner Wells: yes; Mayor Brown: yes; Opposed: none.

Mayor Brown recognized Will Linder. Mr. Linder presented the Board copies of a revised Community Development Plan for approval. Mr. Linder explained State and Local laws make it illegal to provide federal funds to a private owner. You must have an urban renewal plan.

APPROVAL
REVISED
COMMUNITY
DEVELOP-
MENT PLAN

There are two requirements:

- 1. Identification of properties
- 2. Land Use Plan (Existing Zoning)

Commissioner Taylor made a motion to move ahead with the Community Development Plan presented by Will Linder. Commissioner Ritchey seconded. In favor: Commissioner Clayton: yes; Commissioner Ritchey: yes; Commissioner Taylor: yes; Commissioner Wells: yes; Mayor Brown: yes; Opposed: none.

Mr. Linder reported there are about 15 individuals still left on the first buyout list, but legal problems are the hold up. He anticipated the first buyout list will be completed by March 1, 1999. There are individuals that are interested in the buyout, but are not on the first list. They will be considered when the first list is completed.

Community Ventures is ready to start 5 houses in the affected area. Additional renovations will need to be done in a year or two. Mayor Brown felt it was very important to follow-up with a CDBG in a year or two.

Mayor Brown advised the Corps. of Engineers felt the project to contain Hinkston Creek and do a cut through at A. Kellar would be very feasible. If this can be accomplished, the affected area will become a very desirable area.

Mayor Brown recognized Bob Sturdevant of Quest Engineers, Inc. Commissioner Ritchey explained that Mr. Sturdevant was present in

REQUEST OF
QUALIFICA-
TIONS FOR

response to the ad the City had placed in The Lexington-Herald Leader for request of qualifications for engineering services for the Cynthiana Wastewater Treatment Plant and Sanitary Sewer Improvements Project. Commissioner Ritchey advised packets had been received from:

ENG. SERVICES
FOR WWTP &
SANITARY
SEWER
MENTS

1. PDR Engineers
2. Howard K. Bell Engineers
3. Quest Engineers, Inc.

Clyde Hicks and Commissioner Ritchey independently evaluated the firms. Both evaluations rated Quest Engineers, Inc. first. It is the recommendation of Clyde Hicks and Commissioner Ritchey that the City of Cynthiana accept Quest Engineers, Inc. to do study.

Commissioner Wells stated she would like to have Commissioner-elect Ray Lancaster look at these qualifications and do an evaluation. Mayor Brown advised the Board was only choosing an engineering firm to make a study. Commissioner Taylor stated the City of Paris was voting to double sewer tax. Commissioner Wells asked Commissioner Taylor if he would want someone to make this decision for a Board on which he was no longer going to be serving. Commissioner Taylor stated he would make a motion to move forward with Quest Engineers, Inc.

Commissioner Wells expressed doubt that Commissioner Ritchey was qualified to make the decision to evaluate an engineering firm.

Commissioner Taylor made a motion to accept Quest Engineers, Inc. to conduct a preliminary evaluation of the Waste Water Treatment Plant and Sanitary Sewer Improvements. Commissioner Ritchey seconded. In favor: Commissioner Clayton: yes; Commissioner Ritchey: yes; Commissioner Taylor: yes; Commissioner Wells: abstained; Mayor Brown: yes; Opposed: none.

MOTION TO
ACCEPT
QUEST ENGS.
TO CONDUCT
PRELIMINARY
EVALUATION

Commissioner Clayton questioned if Mr. Sturdevant would draw up plans. Mr. Sturdevant advised they will complete the facilities study, and then present options to the Board of Commissioners. Commissioner Clayton stated that Quest Engineers, Inc. had done a 100% job for the City so far. Commissioner Wells stated she did not dispute this, but felt it was unfair to the new incoming Board.

Commissioner Wells made a motion to pay the following bills:

BILLS

| | |
|---------------------------|--------------|
| General Fund | \$122,815.20 |
| Water Fund | \$107,003.45 |
| Cash-in-Bank General Fund | \$369,359.41 |
| Cash-in-Bank Water Fund | \$ 84,570.76 |

Commissioner Ritchey seconded. In favor: Commissioner Clayton: yes; Commissioner Ritchey: yes; Commissioner Taylor: yes; Commissioner Wells: yes; Mayor Brown: yes; Opposed: none.

Commissioner Wells reported that she had attended a seminar hosted by the Kentucky League of Cities on Building Entrepreneurial Communities, a training session on Diversity, and a meeting at BGADD for newly elected officials. She plans to meet with Jack Burch of the Community Action Council on December 14, 1998.

Commissioner Ritchey reported Randy Northcutt had contacted him regarding disposal of appliances (white goods). Randy advised person

DISPOSAL OF
APPLIANCES

doing the crushing has discontinued, and Jack Thomas is no longer accepting white goods. Randy stated he could charge a fee, but still does not know where he will dispose of items. Commissioner Ritchey expressed concern that people would start disposing of appliances in rural dumps.

Mayor Brown suggested the City contact surrounding areas to find out how they are handling the situation. He also suggested the Commission be in charge of establishing this disposal fee.

Commissioner Ritchey commended the Fire Dept for a job well done on the Commissioner's Room.

Commissioner Clayton advised KU is constantly repairing the illuminating street lights. KU has had some problems with bad bulbs, but they will be back to repair.

STREET
LIGHTS

Commissioner Clayton had been asked by residents living along the alley running from Pearl Street through to Penn Street and parallel to Main Street to consider making the Penn Street end one-way. These residents have garages there, and it is very narrow. Commissioner Clayton felt this could be controlled with signage. Commissioner Ritchey questioned if the City puts up signage, would the City have to maintain this alley. Mayor Brown advised we have no idea who owns any of the alleys in town. Commissioner Ritchey and Commissioner Taylor felt the Board should leave this alley untouched.

ALLEY
FROM
PEARL
TO PENN

Commissioner Ritchey requested the Fire Dept. paint the upstairs hall and the stairwell at City Hall.

Commissioner Clayton made a motion to hire Irene Hayes as a part-time dispatcher in the Police Dept. effective 12/11/98. Salary to be commensurate with position and experience. She will start training in Jan. 1999. Commissioner Ritchey seconded. In favor: Commissioner Clayton: yes; Commissioner Ritchey: yes; Commissioner Taylor: yes; Commissioner Wells: yes; Mayor Brown: yes; Opposed: none.

MOTION TO
HIRE IRENE
HAYES AS
PART-TIME
DISPATCHER

Mayor Brown reported Tina Vest is working in the City Clerk's office, but has not been approved by the Board of Commissioners. City Clerk McIlvain advised Ms. Vest is working only while on Thanksgiving break. Mayor Brown stressed that the City needs workers who work at the convenience of the City.

MOTION TO
HIRE TINA
VEST AS
PART-TIME
SEASONAL

Commissioner Wells made a motion to hire Tina Vest as seasonal part-time in the City Clerk's office. Commissioner Clayton seconded. In favor: Commissioner Clayton: yes; Commissioner Ritchey: yes; Commissioner Taylor: yes; Commissioner Wells: yes; Mayor Brown: yes; Opposed: none.

Attorney Lair advised part-time employees were to work less than 37-1/2 hours.

Chief McGuffin reported two new police officers are on the street: Lance Hutchison and David Jones. Officer Jones received the highest marks in his class.

SAFETY
REPORT

Fire Chief Stinson thanked the City for the exhaust system in the Fire Dept.

Commissioner Taylor reported Public Works was short a man, and the leaf machine may work overtime to make up for the downtime due to a broken axle.

PUBLIC
WORKS
REPORT

Commissioner Taylor reported owners of the Dairy Queen, Kocolene, and Harrison Square have stated they will accure steep fines if their sewer systems are not replaced.

Mayor Brown advised these property owners came before the Board, and were advised the proper steps to take, but the Board has not had any contact for at least a year and a half with anyone regarding this situation.

Mayor Brown reported the original fire bell had been polished and placed in front of City Hall. He felt it looked great. Suggestions were made to place a plaque with history of the bell on it and maybe signs marking City Clerk's Office, Police Dept., Fire Dept., etc.

FIRE BELL

Mayor Brown felt the Board should make a decision regarding Christmas gifts for employees. He stated that in previous years full-time employees received a \$50.00 coupon for groceries and part-time a \$25.00 coupon for groceries.

CHRISTMAS
BONUS FOR
EMPLOYEES

Commissioner Wells suggested that some of the single employees may not want a coupon for groceries, but may prefer a gift certificate for something else. If employees receive a monetary gift, it is subject to withholding tax.

After discussion, Commissioner Ritchey made a motion to sperid \$25.00 on a grocery certificate for part-time employees and \$50.00 on a grocery certificate for full time employees. Commissioner Taylor seconded. In favor: Commissioner Clayton: yes; Commissioner Ritchey: yes; Commissioner Taylor: yes; Commissioner Wells: yes; Mayor Brown: yes; Opposed: none.

Commissioner Clayton made a motion to close the City Clerk's office at 1:00 P.M. on December 24, 1998. Commissioner Ritchey seconded. In favor: Commissioner Clayton: yes; Commisisoner Ritchey: yes; Commissioner Taylor: yes; Commissioner Wells: yes; Mayor Brown: yes; Opposed: none.

CITY CLERK'S
OFFICE TO
CLOSE 1:00 PM
12/24/98

Mayor Brown advised the barn at the landfill had about \$19,000.00 worth of insurance coverage, and the premium is due. He felt this coverage should continue.

INS. ON BARN
AT
LANDFILL

Attorney Lair read a letter addressed to the Board from James W. Kane, Manager, Trinity Flange & Fittings. Mr. Kane requested an abatement of sewage charges on water bills for months March 1997 through July 1997. This abatement amount is \$3,707.42. Mr. Kane's letter explained procedure Trinity used in the flood cleanup.

ABATEMENT
OF SEWAGE
CHARGES -
TRINITY

Commissioner Wells made a motion to abate sewage for Trinity Flange and Fittings in the amount of \$3,707.42. Commissioner Clayton seconded. In favor: Commissioner Clayton: yes; Commissioner Ritchey: yes; Commissioner Taylor: yes; Commissioner Wells: yes; Mayor Brown: yes; Opposed: none.

Mayor Brown advised Doug Rigsby of Bluegrass ADD will be at the December 8 meeting to report on the CDBG for infrastructure.

Mayor Brown reported Joe Lewis of Quest Engineers, Inc. informed him that bidders on the North Main sewer project had to pay deposit to receive bid specifications. The City 's Public Works Dept., handled this project, and the bid was not awarded. The three bidders requested a refund of this deposit. The Board agreed.

REQUEST
FOR REFUND
OF BIDDER'S
DEPOSIT ON
NO. MAIN

Mayor Brown complimented the Fire Dept. on the Commissioner's Room.

PROJECT

Commissioner Clayton made a motion to move to executive session for the purpose of discussing personnel. Commissioner Taylor seconded. In favor: Commissioner Clayton: yes; Commissioner Ritchey: yes; Commissioner Taylor: yes; Commissioner Wells: yes; Mayor Brown: yes; Opposed: none.

EXECUTIVE
SESSION

Commissioner Clayton made a motion to return to regular session. Commissioner Ritchey seconded. In favor: Commissioner Clayton: yes; Commissioner Ritchey: yes; Commissioner Taylor: yes; Commissioner Wells: yes; Mayor Brown: yes; Opposed: none.

RETURN TO
REGULAR
SESSION

Mayor Brown reported that while in executive session, the Board discussed personnel matters relating to salary adjustments. No action taken at this time.

PERSONNEL
MATTERS

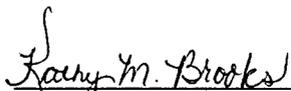
Mayor Brown, Clyde Hicks, and Attorney Lair attended a meeting with the Harrison County Water Association's Board. Another meeting is tentatively scheduled.

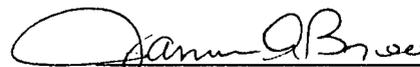
HCWA
MEETING

Clyde Hicks reported Gene Fuller is pleased with the valve turning machine.

There being no further business to discuss, Commissioner Taylor made a motion to adjourn. Commissioner Ritchey seconded. In favor: Commissioner Clayton: yes; Commissioner Ritchey: yes; Commissioner Taylor: yes; Commissioner Wells: yes; Mayor Brown: yes; Opposed: none.

ADJOURN-
MENT


Kathy M. Brooks, Deputy City Clerk


James A. Brown, Mayor

**CITY OF CYNTHIANA**P.O. BOX 67
CYNTHIANA, KENTUCKY 41031
(606) 234-7150

June 2, 1999

Mr. William R. Toadvine
President
Harrison County Water Association
P.O. Box 215
Cynthiana, Kentucky 41031

Dear Mr. Toadvine:

Thank you for the time we shared last Friday, May 28, 1999, discussing water problems. I appreciate your understanding of the change in the rate schedule for the Harrison County Water Association. The City finds that we can no longer sell water at \$1.27 per 1000 gallons to the large users because we are incurring a loss. I was pleased that you understood that the City has no choice but a rate increase. The City is forced to drop the 4th tier in our water rates as a result of this loss.

Regarding the questions we discussed, I am compiling information and the answers will be forthcoming -- hopefully, by the time of your regular meeting.

Today, I am filing these rate changes with the Public Service Commission.

Yours truly,

A handwritten signature in cursive script that reads "Virgie Florence Wells". The signature is written in dark ink and is positioned above the printed name of the signatory.

Virgie Florence Wells
Mayor
City of Cynthiana, Kentucky

VFW/kb

CITY OF CYNTHIANA

REQUEST:

- a. What fee was Cynthiana assessed for Mr. Hensley's "full cost analysis of water and sewer services"?
- b. Has Cynthiana reviewed or commissioned a review of its operations for the months since September 30, 1999 to determine if its operations for July 1999 were representative of its normal operations?

RESPONSE:

- a. \$3,450.00
- b. The city is in the process of performing the study and will file the results when received.

Witness: Mayor Virgie Wells; Jerry Hensley

CITY OF CYNTHIANA

REQUEST:

Refer to Cynthiana's Response to the Commission's Order of November 29, 1999, Item 9(a). Provide a schedule that compares Cynthiana's allocation of salaries and payroll costs to each city division for each month of the period from July 1, 1999 through December 31, 1999.

RESPONSE:

The salary allocation is attached. The remaining payroll allocation will be filed on or before January 21, 2000.

Witness: Charleen McIlvain

ALLOCATION OF SALARIES
CITY OF CYNTHIANA
JULY 1, 1999 - DECEMBER 31, 1999

Affairs Division

| Month | General Fund | Water | Sewer |
|-----------|--------------|----------|--------|
| July | 2,577.42 | 7.54 | 7.54 |
| August | 1,833.89 | 1,054.90 | ----- |
| September | 2,589.94 | 241.12 | 30.14 |
| October | 2,996.83 | 798.71 | 271.26 |
| November | 2,017.28 | 346.61 | 497.31 |
| December | 2,137.84 | 421.96 | 301.40 |

Finance/Administrative Division

| Month | General Fund | Water | Sewer |
|-----------|--------------|----------|----------|
| July | 6,344.62 | 1,469.31 | 1,268.83 |
| August | 6,242.98 | 1,664.80 | 1,633.30 |
| September | 6,174.49 | 1,549.68 | 1,535.68 |
| October | 9,096.65 | 1,796.58 | 1,746.70 |
| November | 6,143.02 | 1,676.77 | 1,547.23 |
| December | 6,228.22 | 1,626.10 | 1,626.10 |

Public Works

| Month | General Fund | Water | Sewer |
|-----------|--------------|-----------|----------|
| July | 8,871.53 | 3,569.92 | 1,328.97 |
| August | 8,539.72 | 5,507.47 | 601.65 |
| September | 6,747.11 | 8,522.07 | 710.97 |
| October | 12,836.99 | 12,259.98 | 1,737.90 |
| November | 11,584.73 | 1,748.91 | 2,252.02 |
| December | 12,769.00 | 3,025.37 | 684.41 |

CITY OF CYNTHIANA

REQUEST:

Refer to Cynthiana's Response to the Commission's Order of November 29, 1999, Item 12(c)(1). How should postage expense be allocated between the general fund, water division and sewer division? Explain.

RESPONSE:

No portion of postage expense was allocated to Harrison County Water District and as a result the entire cost is borne by the City. See, Sheet 3 of 3, City of Cynthiana's Response to Commission Order dated January 4, 2000, Item 1(c). If the expense were to be allocated, 1/3 of the cost should be allocated to water service in light of the fact that billings are for water, sewer and garbage service.

Witness: Carlos Miller

CITY OF CYNTHIANA

REQUEST:

Refer to Cynthiana's Response to the Commission's Order of November 29, 1999, Item 18(c). What is the basis for Mr. Hensley's statement that "[t]he 'lives' used are within acceptable practices used by most municipal entities"?

RESPONSE:

Mr. Hensley has provided accounting and auditing services to more than 36 municipal entities over the past 26 years. The statement was based on that experience as a professional.

Witness: Jerry Hensley

CITY OF CYNTHIANA

REQUEST:

Refer to Cynthiana's Response to the Commission's Order of November 29, 1999, Item 17. As of the date of this Order, Cynthiana has yet to provide the requested workpapers and supporting documents. State when Cynthiana expects to submit these documents.

RESPONSE:

The supporting documentation is attached. The work papers were included as part of the Response.

Witness: Jerry Hensley

**OFFICIAL STATEMENT
of the
CITY OF CYNTHIANA, KENTUCKY**

relating to its

\$2,830,000

WATER AND SEWER REFUNDING AND IMPROVEMENT REVENUE BONDS OF 1978

With reference to \$2,830,000 Water and Sewer Refunding and Improvement Revenue Bonds of 1978 (the "Current Bonds"), the City of Cynthiana, Kentucky (the "City") is distributing this Official Statement to furnish pertinent information to all who may become purchasers of the Current Bonds.

PURPOSE OF THE BOND ISSUE

The 1978 Bonds are being issued for the following purposes:

1. Refunding certain outstanding City of Cynthiana, Kentucky, Water-Works and Sewer Revenue Bonds (the "Prior Bonds") by depositing in the Escrow Fund, and simultaneously investing in U.S. Obligations, an amount which, when added to the contractual investment income to be realized thereon, will be sufficient to provide for the payment of the interest on and principal of the following Prior Bonds, which are being refunded, as they are scheduled to mature, and without redemption prior to maturity:

| <u>Date of Issue</u> | <u>Final Maturity</u> | <u>Original
Amount
Issued</u> | <u>Bonds
Retired
to May 1, 1978</u> | <u>Bonds
Outstanding
as of May 1, 1978</u> |
|----------------------|-----------------------|---------------------------------------|---|--|
| January 1, 1956 | January 1, 1982 | \$ 460,000 | \$345,000 | \$ 115,000 |
| January 1, 1964 | January 1, 1994 | 1,200,000 | 380,000 | 820,000 |
| July 1, 1969 | January 1, 1982 | 120,000 | 80,000 | 40,000 |
| July 1, 1971 | January 1, 1996 | 500,000 | 50,000 | 450,000 |
| | Totals | <u>2,280,000</u> | <u>855,000</u> | <u>1,426,000</u> |

This refunding is being accomplished in order to:

- effect the cancellation of the restrictive and burdensome provisions of the ordinances authorizing the Prior Bonds as to conditions and requirements necessary to be satisfied in order to enable future parity bonds to be issued, by adopting more liberal parity provisions in the 1978 Bond Ordinance, so as to permit the issuance of future bonds ranking on a parity with the Current Bonds upon the City's establishing the availability of net annual revenues of at least 1.25 times the average annual debt service requirements, instead of as previously required;

- eliminate certain existing restrictions;

- restructure the schedule of Debt Service Requirements.

2. Paying the costs of certain extensions, additions, and improvements to the existing municipal combine water and sewer system of the City of Cynthiana, Kentucky. These extensions, additions, and improvements to the City's sanitary sewerage system are designed to bring that system into compliance with the 1972 Federal Water Pollution Control Act, and are discussed in greater detail in the section, "Planned Improvements", contained herein.

Preliminary Official Statement Dated September 15, 1992

BANK INTEREST DEDUCTION ELIGIBLE

Standard & Poor's Rating:
(See "Rating" herein)

PRELIMINARY OFFICIAL STATEMENT DEEMED FINAL UNDER SEC RULE 15c-12(b)(1)
but subject to revision, amendment and completion in a "Final Official Statement".

\$5,720,000*
CITY OF CYNTHIANA, KENTUCKY
WATER AND SEWER REFUNDING REVENUE BONDS
SERIES 1992

Dated September 1, 1992

Due January 1 As Shown Below

Interest payable January 1, 1993, and semiannually thereafter on July 1 and January 1. Principal payable at The Harrison Deposit Bank & Trust Company, Cynthiana, Kentucky, Registrar and Paying Agent. The Bonds are issued in fully registered form in denominations of \$5,000 or multiples thereof (within the same maturity). The Paying Agent shall remit interest payments semiannually to each Registered Owner of record as of the 15th day of the month preceding the due date by regular United States mail. Principal shall be paid upon submission of matured bond certificate(s) to the Paying Agent. The Bonds are transferable upon presentation of the Bond with proper assignment at the principal office of the Registrar without expense to the Registered Owner.

Bonds maturing on and after January 1, 2004, shall be subject to prior redemption at the option of the City in whole or in part in inverse order of their maturities (less than all of a single maturity to be selected by lot), on any interest payment date on or after January 1, 2003, at a redemption price expressed as a percentage of the principal amount thereof plus unpaid interest accrued to the date of redemption as follows: 102% if redeemed on or prior to July 1, 2003; 101% if redeemed thereafter and on or prior to July 1, 2004; and 100% if redeemed thereafter, and prior to final maturity.

Proceeds of the Bonds will be used to pay the costs, not otherwise provided, of refunding the outstanding City of Cynthiana, Kentucky, Water and Sewer Refunding and Improvement Revenue Bonds of 1978 (the "Series 1978 Bonds") and the outstanding City of Cynthiana, Kentucky, Water and Sewer Revenue Bonds, Series 1987 (the "Series 1987 Bonds"), and to pay the costs of issuance of the Bonds.

SCHEDULE OF MATURITIES*

| Due
January 1
1993 | CUSIP # | Amount | Rate | Yield | Due
January 1
2001 | CUSIP # | Amount | Rate | Yield |
|--------------------------|---------|-----------|------|-------|--------------------------|---------|-----------|------|-------|
| | | \$280,000 | | | | | \$420,000 | | |
| 1994 | | 215,000 | | | 2002 | | 440,000 | | |
| 1995 | | 220,000 | | | 2003 | | 465,000 | | |
| 1996 | | 235,000 | | | 2004 | | 490,000 | | |
| 1997 | | 245,000 | | | 2005 | | 510,000 | | |
| 1998 | | 310,000 | | | 2006 | | 540,000 | | |
| 1999 | | 385,000 | | | 2007 | | 565,000 | | |
| 2000 | | 400,000 | | | | | | | |

(Plus Accrued Interest - When Issued)

The Bonds are issued pursuant to authority contained in Chapter 82 and Sections 58.010 to 58.140, inclusive, of the Kentucky Revised Statutes. The Bonds are not obligations of the City under any Constitutional or statutory limitation of the Commonwealth of Kentucky but are special obligations payable only from and secured by a pledge of a fixed portion of the gross income and revenues to be derived from the operation of the City of Cynthiana Water and Sewer System (the "System").

In the opinion of Bond Counsel, interest on the Bonds is excludable from the gross income of the recipients thereof for Federal income tax purposes under existing law, regulations and court decisions, except as to certain recipients, and the Bonds and interest thereon are exempt from income taxes and ad valorem taxes (except inheritance taxes) in the Commonwealth of Kentucky and any political subdivision thereof. See "Tax Exemption" herein.

The Bonds are issued subject to approval of legality by Rubin Hays & Foley, Louisville, Kentucky, Bond Counsel, who will also render an opinion as to certain tax matters related to the Bonds.

*As set forth in "Official Terms and Conditions of Bond Sale", the principal amount of Bonds sold to the successful bidder is subject to the Permitted Adjustment therein defined increasing or decreasing said amount by an amount not to exceed \$570,000.

OFFICIAL STATEMENT
\$5,720,000*
CITY OF CYNTHIANA, KENTUCKY
WATER AND SEWER REFUNDING REVENUE BONDS
SERIES 1992

Dated September 1, 1992

This Official Statement, which includes the cover page, is being distributed by the City of Cynthiana, Kentucky, (the "City") to furnish pertinent information to all who may become holders of its Water and Sewer Refunding Revenue Bonds, Series 1992, dated September 1, 1992 (the "Bonds") being offered hereby pursuant to the provisions of Chapter 82 and Sections 58.010 to 58.140, inclusive, of the Kentucky Revised Statutes, and pursuant to the terms of a Bond Ordinance to be adopted by the City on September 22, 1992.

The summaries and references to Sections of the Kentucky Revised Statutes and the Bond Ordinance, as included in this Official Statement, do not purport to be comprehensive or definitive and are qualified in their entirety by reference to each such document.

DESCRIPTION OF THE BONDS

Authorization

On September 22, 1992, pursuant to Chapter 82 and Sections 58.010 to 58.140, inclusive, of the Kentucky Revised Statutes, the City Council of the City will adopt a Bond Ordinance (i) authorizing the issuance of \$5,720,000* Water and Sewer Refunding Revenue Bonds; (ii) approving the publication of a Notice of Sale of Bonds; (iii) approving the terms and conditions of bond sale; and (iv) authorizing the Mayor of the City to execute the Official Statement related to the Bonds.

Terms

The Bonds will be dated September 1, 1992, will bear interest payable January 1, 1993, and thereafter semiannually on each July 1 and January 1 at the rates established by the City upon acceptance of a bid for said Bonds, and, subject to the redemption provisions set forth below, will mature on the dates and in the amounts set forth elsewhere herein and in the Bond Ordinance.

Denominations; Place of Payment, Transfer

The Bonds are issued as fully registered bonds (both principal and interest) in the denomination of \$5,000 or, within each maturity, in multiples of \$5,000. The Harrison Deposit Bank & Trust Company, Cynthiana, Kentucky, is the Registrar, Paying Agent, and Depository.

Interest will be paid by the Paying Agent by regular United States mail on each January 1 and July 1, commencing January 1, 1993, to Registered Owners of record on the 15th day of the month preceding the interest due date.

*Subject to Permitted Adjustment.

Principal will be paid on January 1 in the years 1993 through 2007, inclusive, upon presentation of the maturing Bond at the principal office of the Paying Agent.

Bond(s) may be transferred without cost to the Bondholder upon presentation of the Bond and acceptable transfer instructions to the Registrar at its principal office.

Optional Redemption Provisions

The Bonds maturing on and before January 1, 2004, are not subject to redemption prior to maturity. The Bonds maturing on and after January 1, 2004, will be subject to redemption on any interest payment date on and after January 1, 2003, in inverse order of maturity, as a whole or in part (less than all of a single maturity to be selected by lot), at the option of the City at the following redemption prices (expressed as percentages of principal amount), plus accrued interest to the redemption date, all in the manner provided by the Resolution:

| <u>If Redeemed:</u> | <u>Redemption Price</u> |
|---|-------------------------|
| January 1, 2003 through July 1, 2003 | 102% |
| January 1, 2004 through July 1, 2004 | 101% |
| January 1, 2005 and prior to final maturity | 100% |

Security

The Bonds will not be general obligation bonds of the City, will be issued pursuant to an Ordinance (the "Bond Ordinance") to be adopted by the Board of Commissioners (the "Commission") of the City on September 22, 1992, and pursuant to the provisions of Chapter 82 and Sections 58.010 through 58.140 of the Kentucky Revised Statutes, will be payable from and will be secured by the income and revenues of the System.

As additional security and in addition to the above pledge of system revenues to the payment of principal of and interest on the Bonds, there has been established the "Reserve Fund", as described elsewhere in this Official Statement, the balance of which shall be used for payment of principal of and/or interest on the Bonds at any time when amounts in the Bond Fund are insufficient for such payment.

AUTHORITY AND PURPOSE

The Bonds have been authorized by an Ordinance duly enacted by the Board of Commissioners of Cynthiana, Kentucky, pursuant to the authority of Chapter 82 and Sections 58.010 through 58.140, inclusive, of the Kentucky Revised Statutes, for the purpose of financing the cost, not otherwise provided, of depositing funds in escrow sufficient, when invested in obligations of the U. S. Government, to provide funds in ample time (i) to pay the principal and interest of the City of Cynthiana, Kentucky Water and Sewer Revenue Bonds, dated May 1, 1987 (the "Series 1987 Bonds") falling due on January 1, 1993 and on January 1, and July 1 of each year thereafter through and including January 1, 1997, and to redeem, on January 1, 1997, all of the Series 1987 Bonds scheduled to mature subsequent to January 1, 1997, at a redemption price of 102% of the principal amount redeemed; (ii) to redeem, on January 1, 1993, the City of Cynthiana, Kentucky Water and Sewer Refunding and Improvement Revenue Bonds, Series 1978, dated May 1, 1978, at a redemption price of 102% of the principal amount, plus accrued interest to January 1, 1993; and (iii) to pay the costs of issuance of the Bonds.

Estimated Sources and Uses of Funds

Estimated Uses of Funds:

| | | |
|--|-------------|---------------------------|
| Escrow Requirements for Advance Refunding
of Revenue Bonds: | | |
| Purchase of Investments | \$6,320,800 | |
| Cash Deposit | <u>10</u> | |
| Subtotal - Escrow Requirements | | \$6,320,810 |
| Financial Advisor, Legal, and Other Bond
Issuance and Administrative Expenses | | <u>86,544</u> |
| Total Estimated Uses of Funds | | <u>\$6,407,354</u> |

Estimated Sources of Funds:

| | | |
|--|------------------|---------------------------|
| Water and Sewer Refunding Revenue
Bonds | \$5,720,000 | |
| Deduct: Bond Discount
(1.50% Maximum) | <u>(85,800)</u> | |
| Net Proceeds of Refunding Bonds | | 5,634,200 |
| Transfer Prior Debt Service Reserve | | 756,154 |
| Payment from Operations Surplus | | <u>17,000</u> |
| Total Sources of Funds | | <u>\$6,407,354</u> |

DISPOSITION OF BOND PROCEEDS

Whenever the Bonds shall have been sold and delivered, the proceeds shall be applied as follows:

- (a) The amount received from the purchaser representing accrued interest from September 1, 1992, to the date of delivery, shall immediately be deposited into the Sinking Fund.
- (b) There shall next be paid any and all expenses incident to the issuance, sale, and delivery of the Bonds, including the fee of the Financial Advisor and such other appropriate expenses as may be approved by the Mayor.
- (c) There shall next be paid to The Harrison Deposit Bank & Trust Company, Cynthiana, Kentucky, the payee bank for the Series 1978 Bonds, for deposit in the City of Cynthiana Water and Sewer Bond and Interest Redemption Fund, the amount necessary to pay in full the Series 1978 Bonds on January 1, 1993.
- (d) The balance of the proceeds remaining shall be deposited in a special escrow account, hereby created, entitled "City of Cynthiana, Kentucky Water and Sewer Bond Escrow Account" (the "Escrow Account"), which Escrow Account shall be maintained at First Natinal Bank of Louisville, Louisville, Kentucky (the "Escrow Agent"); and the amount on deposit in said Escrow Account shall be applied to the extent necessary, to pay the principal of and interest on the Series 1987 Bonds coming due on January 1, 1993, and on January 1 and July 1, of each year thereafter until and including January 1, 1997, and to redeem on January 1, 1997, all of the remaining outstanding Series 1987 Bonds at a redemption price of 102% of the principal amount redeemed, all in accordance with the terms and conditions set forth in the Escrow Agreement by and between the City and the Escrow Agent, dated September 1, 1992.

CERTAIN PROVISIONS OF THE BOND ORDINANCE

The Bond Ordinance contains various covenants of the City and provisions for the payment of the Bonds in accordance with their terms, certain of which are summarized below. Reference is made to the Bond Ordinance for a full and complete statement of its provisions.

The City has authorized the issuance of its City of Cynthiana, Kentucky Water and Sewer Refunding Revenue Bonds, Series 1992, in an aggregate amount of \$5,720,000*. The Bonds are fully registered and in denominations in multiples of \$5,000. The Bonds bear interest payable on January 1 and July 1 in each year, beginning January 1, 1993, at such interest rate or rates as may be fixed by the City, as a result of an advertised sale of said Bonds in competitive bidding therefor. Said Bonds shall mature on January 1 in the years 1993 through 2007, inclusive, as provided in the Bond Ordinance.

The City has reserved the option to call and redeem the Bonds maturing on and after January 1, 2004, prior to maturity on any interest payment date on or after January 1, 2003, upon payment of the principal amount and accrued interest to date of redemption plus a redemption premium. Notice of such redemption, identifying the Bonds to be redeemed, shall be given by the Paying Agent by regular United States Mail at least once no less than thirty days prior to the redemption date to each Registered Owner affected.

Paying Agent and Registrar

The Harrison Deposit Bank & Trust Company, Cynthiana, Kentucky, has been named Paying Agent and Registrar for the Bonds.

Interest payments will be made by the Paying Agent by United States first-class mail to each Registered Owner of record as of the 15th day of the month preceding the interest due dates. Payments will be mailed to the address as recorded on the registration records of the Registrar.

Principal payments will be made at maturity upon presentation of the maturing Bond(s) at the principal office of the Paying Agent.

The Bonds may be transferred upon presentation and proper assignment at the principal office of the Registrar. Transfer will be made without cost to the Registered Owner.

Flow of Funds

The income and revenues of the System shall be collected, segregated, accounted for and distributed as follows:

Revenue Fund. The Gross Revenues of the System, plus, if and when said Funds have been fully funded, interest earned from the investment of money in the respective Funds shall be set aside monthly into the Revenue Fund and shall be expended, used and apportioned as set out in the ensuing subsections of this Section.

Sinking Fund. There shall be transferred on or before the first day of each month, from the Revenue Fund, the amounts hereinafter specified, to pay the interest on and principal of the Outstanding Bonds. The amounts to be so set aside and paid into the Sinking Fund in each month, in equal installments, shall be amounts sufficient to pay the annual debt service requirements of the Outstanding Bonds, as same fall due, as follows:

*Subject to Permitted Adjustment.

An amount equal to one-sixth (1/6) of the interest becoming due on the Outstanding Bonds on the next succeeding Interest Payment Date, subject to a credit for the amount of accrued interest collected on the Bonds and deposited in the Sinking Fund; plus

An amount equal to one-twelfth (1/12) of the principal amount of all Outstanding Bonds maturing on the next succeeding January 1.

As and when additional Parity Bonds are issued, provision shall be made for additional payments into the Sinking Fund to pay the interest on and the principal of such additional Parity Bonds as and when the same become due.

The Sinking Fund is pledged for the payment of the interest on and the principal of the Bonds and is subject to a first and paramount lien and charge in favor of the holders of the Bonds.

No further payments are required to be made into the Sinking Fund (i) whenever and so long as such amount of the Outstanding Bonds shall have been retired that the amounts then held in the Sinking Fund and/or the Reserve Fund, are equal to the entire amount of the interest and principal that will be payable to and at the time of the retirement or maturity of all of the Outstanding Bonds, or (ii) whenever the Outstanding Bonds have been defeased.

Such payments into the Sinking Fund shall be made in equal monthly installments on or before the twentieth day of each month, except that when the twentieth day of any month shall be on a Sunday or legal holiday, then such payments shall be made on the next succeeding business day.

In the event that the income and revenues during any month are inadequate to make the required payments into the Sinking Fund, the deficiency shall be made up and paid as aforesaid from the first available income and revenues thereafter received, and same shall be in addition to payment otherwise provided to be made in such succeeding month or months.

Reserve Fund. Upon the issuance of the Bonds, the City shall begin to deposit in the Reserve Fund, in each month, an amount equal to one-sixtieth (1/60) of the Required Debt Service Reserve until the total Required Debt Service Reserve has been accumulated. Amounts on deposit in the Reserve Fund may be withdrawn and used by the City, when necessary, and shall be so withdrawn and used if and to the extent necessary to prevent the occurrence of an Event of Default, for the purpose of making payments of principal and interest on the Bonds if the amount on deposit in the Sinking Fund is not sufficient to make such payments; provided, however, that in the event of any such withdrawal, the City shall restore such deficiency through the deposit into such Reserve Fund in each month thereafter, of an amount equal to the greater of (i) \$2,500 or (ii) an amount equal to one-sixtieth (1/60) of the amount required to be accumulated in the Reserve Fund, until the total Required Debt Service Reserve shall have been restored.

"Required Debt Service Reserve" refers to an amount equal to not less than the maximum amount of principal and interest requirements falling due in any year on all of the Outstanding Bonds.

The City hereby covenants that if, at the end of any Fiscal Year, there shall not have been accumulated in the Reserve Fund during such Fiscal Year an amount equal to 20% of the Required Debt Service Reserve, the City will transfer into the Reserve Fund from other funds of the City an amount sufficient, when added to the amounts accumulated in the Reserve Fund during such Fiscal Year, to cause such annual accumulation to equal 20% of the Required Debt Service Reserve, it being the intent of the City that the total Required Debt Service Reserve shall be accumulated within five years, at the rate of 20% per year.

As and when Parity Bonds are issued the Reserve Fund shall be increased to equal the Required Debt Service Reserve and such Required Debt Service Reserve shall be similarly maintained and restored when necessary, in the manner specified above.

No deposits shall be made in the Reserve Fund which would cause the total amount deposited therein to exceed the Required Debt Service Reserve and any available revenues in excess of the Required Debt Service Reserve amount shall be immediately transferred to the Depreciation Fund.

Operation and Maintenance Fund. There shall be transferred from the Revenue Fund and deposited into the Operation and Maintenance Fund, beginning on or before the first day of the month following the month of enactment of the Bond Ordinance, from month to month, or as needed, such amounts as are required to pay, as they accrue, the proper and necessary costs of operating, maintaining and insuring the System, and to accumulate and maintain in the Operation and Maintenance Fund an amount sufficient to pay all costs of operating, maintaining and insuring the System. Subject to the foregoing requirements, all costs of operating, maintaining and insuring the System shall be paid from the Operation and Maintenance Fund.

All funds in the Operation and Maintenance Fund shall be maintained separate and apart from all other municipal funds and shall be deposited, secured and/or invested in the manner provided in the Bond Ordinance.

Depreciation Fund. Subject to the foregoing disposition of the revenues of the System, there shall be set aside and paid into the Depreciation Fund in each month, as the next payment from the Revenue Fund, beginning on or before the first day of each month following the delivery of the Bonds, an additional amount equal to ten percent (10%) of the balance of the monies in the Revenue Fund which monies are to be accumulated in the Depreciation Fund, until the total amount on deposit in the Depreciation Fund is an amount equal to Required Depreciation Reserve after which, such additional deposits may be discontinued, subject to resumption, if whenever, and so long as same shall be reduced below such stipulated amount.

"Required Depreciation Reserve" refers to an amount equal to twelve months' normal requirements for the Depreciation Fund as certified by the operating engineer in charge of the System.

Amounts in the Depreciation Fund may be withdrawn and used upon appropriate certification by whatever official is duly authorized by the Governing Body to make such certification, for the purpose of paying the cost of making unusual or extraordinary maintenance, repairs, renewals and/or replacements to the System, which would be necessary to keep the System in good operating condition, or for the purpose of paying the cost of constructing extensions, additions and/or improvements to the System which will either enhance the revenue-producing capacity of the System or provide a higher degree of service; provided, however, that if the combined available balances in the Sinking Fund and the Reserve Fund on the twentieth day of any June or December shall be insufficient to pay the next maturing installment of interest and/or of principal and interest of the Outstanding Bonds, the City shall withdraw and transfer from the Depreciation Fund to the Sinking Fund whatever amount may be required to eliminate the deficiency in the Sinking Fund and to avoid a default.

Provided further that any such withdrawals shall be promptly restored to the Depreciation Fund through the deposit from the Revenue Fund in each month into the Depreciation Fund, of an amount equal to ten percent (10%) of the balance of the monies in the Revenue Fund, to the extent necessary, until the total Required Depreciation Reserve has been restored and is being maintained.

The City does not reasonably anticipate that any amounts in the Depreciation Fund will be used to pay debt service on any Bonds.

There shall also be deposited in said Depreciation Fund the proceeds from the sale of any equipment no longer usable or needed, fees or charges collected from potential customers to aid in the financing of the cost of future extensions and improvements, and the proceeds of any property damage insurance not immediately used to replace the damaged or destroyed property.

As and when additional Parity Bonds are issued, the City shall determine at the time of issuance thereof, with the advice of the Independent Consulting Engineers then employed by the City, (a) whether additional amounts shall be accumulated in the Depreciation Fund, (b) the exact revision, if any, in the required deposits in such Depreciation Fund and (c) the revised amount of the Required Depreciation Reserve necessary to be accumulated in such Depreciation Fund; whereupon covenants to that effect shall be incorporated in the proceedings authorizing the issuance of such Parity Bonds.

All amounts on deposit in the Depreciation Fund shall be kept separate and apart from all the municipal funds and shall be deposited, secured, and/or invested in the manner provided in this Bond Ordinance.

Investment of Funds. All moneys held in the Revenue Fund, the Sinking Fund, the Reserve Fund, the Depreciation Fund, and the Operation and Maintenance Fund shall be deposited in the Depository Bank. Said Depository Bank shall invest such portion of such Funds as is designated by the Governing Body of the City, in Permitted Investments; and any of such funds on deposit in said Depository Bank or in such Permitted Investments in excess of the amount insured by the FDIC shall, until expended, be earmarked and secured by a pledge of an equivalent amount in current market value (exclusive of accrued interest) of U. S. Obligations, having a maturity date or being subject to redemption at the option of the holder not more than five years from the date of investment therein; and all such income from such Permitted Investments shall be treated as revenues of the System and deposited into the Revenue Fund. No investment shall be made of either the proceeds of the Bonds or the revenues of the System which would cause the Bonds to be treated as arbitrage bonds.

Because of possible future changes in Federal arbitrage regulations and/or the interpretation thereof, the Governing Body of the City has directed that all transfers and deposits of funds, particularly with reference to existing funds on deposit, funds treated (under applicable arbitrage regulations) as proceeds subject to investment restriction, and/or funds treated as proceeds of bonds, may be revised, but not as to basic amounts required to be transferred, deposited, or accumulated, to whatever extent may be recommended by Bond Counsel, with a view toward assuring the maximum permissible advantage to the City without violating applicable arbitrage regulations and without causing the Bonds or any future Parity Bonds to become arbitrage bonds, in the light of existing regulations, regulations in effect at the time of the delivery of the Bonds and any future Parity Bonds, and regulations in effect at the respective times of transfers and/or investments of the respective Funds.

Surplus Funds. If, at the end of any fiscal year, after making the payments required by the foregoing, there shall remain a balance in said Revenue Fund in excess of the amount required to be transferred during the ensuing year, such balance within sixty (60) days after the end of such fiscal year, shall be used as follows, in the order indicated:

To transfer into the Reserve Fund whatever amount, if any, shall be necessary to accumulate or restore the Required Debt Service Reserve.

To transfer and deposit into the Depreciation Fund whatever amount, if any, shall be necessary to accumulate or restore the Required Depreciation Reserve.

To transfer and deposit into the Operation and Maintenance Fund whatever amount, if any, shall be necessary to accumulate or restore the total amount required to be on deposit in the Operation and Maintenance Fund, which is an amount sufficient to pay all costs of operating, maintaining and insuring the System for one full month.

Any balance in the Revenue Fund remaining at the end of any fiscal year, after the Reserve Fund and the Depreciation Fund shall have been fully funded and are being maintained, may be used as follows:

To retire or redeem Outstanding Bonds, or in inverse order of maturities, to purchase Outstanding Bonds in the open market, or to purchase Outstanding Bonds through advertisement for and receipt of tenders of Outstanding Bonds, at not exceeding the call price, as may be determined by the Governing Body of the City;

To pay current and/or future principal and interest requirements of any outstanding junior and subordinate obligations against the System, or any part thereto; and/or

To transfer any portion of such surplus to the Depreciation Fund or the general fund of the City.

Parity Bonds

The City reserves the right to issue additional bonds in the future in order to pay the costs of additions, extensions and improvements to the System ranking on parity with the Bonds. Neither the Bonds, nor bonds issued in the future in accordance with the restrictions and conditions contained in the Ordinance shall be entitled to priority, one over the other, in the application of the revenues pledged.

Prior to the issuance of such Parity Bonds, there shall be procured and filed with the City Clerk a statement by an independent public accountant not in the regular employ of the City reciting the conclusion that the net revenues of the System during a period of twelve consecutive months out of the eighteen months immediately preceding the issuance of such Parity Bonds were equal to at least 1.25 times the maximum amount that will become due in any succeeding fiscal year of the System for both principal of and interest on all Bonds then outstanding and also the Parity Bonds then proposed to be issued. In the event that the net revenues for such period were inadequate to meet the foregoing requirements; the amount of gross revenues reflected in such certificate may be adjusted to reflect any revision in the schedule of rates being imposed at the time and also reflect the additional estimated net revenues to be realized through the extensions, betterments and improvements of the System to be acquired or constructed through the issuance of such additional bonds, such adjustments to be based upon certification by a consulting engineer of national reputation not in the regular employ of the City.

The City further reserves the right to issue additional bonds payable from the revenues pledged but not ranking on parity with the Bonds.

Arbitrage Provisions

The City shall at all times do and perform all acts and things permitted by law and necessary or desirable in order to assure that interest paid by the City on the Bonds shall, for the purpose of Federal income taxation, be excludable from the gross income of the recipients under any valid provision of law.

The City shall not permit at any time any of the proceeds of the Bonds or other funds of the City to be used to acquire any securities or obligations the acquisition of which would cause any such Bond to be an "arbitrage bond", as defined in the Internal Revenue Code of 1986, as amended (the "Code"), unless, under any valid provision of law hereafter enacted, the interest paid by the City on the Bonds shall be excludable from the gross income of a recipient thereof for Federal income tax purposes without regard to compliance with the Code.

The City has agreed to observe the provisions of the Code with regard to the required rebates of investment earnings to the United States.

Ordinance to Constitute a Contract

The provisions of the Ordinance shall constitute a contract between the City and the holders of any Bonds from time to time outstanding and, after the sale of such Bonds, no change in the provisions of the Ordinance shall be permitted while any of said Bonds remain outstanding and unpaid, except as expressly authorized in the Ordinance.

Other Covenants

The City further covenants that so long as any of the bonds issued pursuant to the authority of the Bond Ordinance remain outstanding and unpaid:

- (A) It will perform all duties required by law and by the terms of the Bond Ordinance.
- (B) It will at all times operate the System on a revenue-producing basis and will permit no free services to be rendered.
- (C) It will maintain the System in good condition and will make renewals and replacements as same may be required.
- (D) It will not sell, mortgage, pledge, lease or in any manner dispose of the System or the revenues thereof, except as permitted by the Bond Ordinance.
- (E) It will establish, enforce and collect reasonable rates and charges to be adequate at all times to operate and maintain the System, provide for depreciation thereof and for orderly payment of principal and interest on all outstanding bonds.
- (F) It will cause a coverage report to be filed with the Governing Body within four months after the end of each fiscal year by Certified Public Accountants and/or Independent Consulting Engineers, setting forth what was the precise percentage of the maximum annual debt service requirements falling due thereafter for principal of and interest on all of the then Outstanding Bonds payable from the revenues of the System; and the City covenants that if and whenever such report so filed shall establish that such coverage of net revenues for such year was less than 120% of the maximum future annual debt service requirements, the City shall increase the rates by an amount sufficient, in the opinion of such Certified Public Accountants and/or Independent Consulting Engineers, to establish the existence of or immediate projection of, such minimum 120% coverage.
- (G) It will not at any time reduce the prevailing schedule of rates and charges without first obtaining the written determination of a consulting engineer that the proposed reduction will not adversely affect the ability of the City to meet all the requirements set forth in the Bond Ordinance.
- (H) It will at all times segregate and regularly make application of the revenues of the System in accordance with the Bond Ordinance.
- (I) It will keep proper books of record, separate from all other municipal records.
- (J) It will within 120 days after the end of each fiscal year cause an audit to be made of the books of record by an independent accountant.
- (K) Any Registered Owner of the Bonds may enforce and compel performance by the City of all duties imposed by law or the Bond Ordinance.
- (L) If there be any default in the payment of the principal of or interest on any of the Bonds, any Registered Owner of said Bonds may file suit and any court having jurisdiction may appoint a receiver to administer the System on behalf of the City with power to charge and collect rates sufficient to provide for the payment of any bonds or obligations outstanding against the System and for payment of operating expenses and to apply the revenues in conformity with the Bond Ordinance.

- (M) It will cause each municipal officer or other person (other than depository banks) having custody of any monies administered under the provisions of the Bond Ordinance to be bonded at all times in a amount at least equal to the maximum amount of such monies in custody at any time.
- (N) It will maintain at all times insurance of all insurable properties constituting parts of the System to the full insurable value thereof against damage or destruction by fire, windstorm and the hazards covered by the standard "extended coverage" policy endorsements.
- (O) Pursuant to KRS 96.934 rates and charges for sewer service provided by the System shall be billed simultaneously with rates for water service provided by the System and water service will be discontinued to any premises where there is failure to pay any part of the aggregate charges so billed including such interest, penalties and fees for disconnection and/or reconnection as may be prescribed from time to time.

TAX EXEMPTION

Rubin Hays & Foley, Louisville, Kentucky, Bond Counsel, will render their opinion to the effect that (i) interest on the Bonds is excludable from gross income for Federal income tax purposes under present laws, court decisions, rulings and regulations and (ii) interest on the Bonds is exempt from income taxation by the Commonwealth of Kentucky and the Bonds are exempt from ad valorem taxation (except inheritance taxes) by the Commonwealth of Kentucky or any political subdivision thereof.

Bond Counsel's opinion is subject to the condition that the City comply with all requirements of the Code that must be satisfied subsequent to the issuance of the Bonds in order that interest thereon be or continue to be excluded from gross income for Federal income tax purposes. The City has covenanted to comply with such requirement. Failure to comply with certain of such requirements may cause the inclusion of interest on the Bonds in gross income for Federal income tax purposes to be retroactive to the date of issuance of the Bonds, Bond Counsel expresses no opinion regarding other Federal tax consequences arising with respect to the Bonds.

Interest on the Bonds is not an item of tax preference for purposes of the Federal alternative minimum tax imposed on individuals and corporations.

Interest on the Bonds will be included in the adjusted current earnings of certain corporations and such corporations will be required to include in the calculation of alternative minimum taxable income 75% of the excess of such corporation's adjusted current earnings over its alternative minimum taxable income (determined without regard to this adjustment and prior to reduction for certain alternative tax net operating losses).

The exclusion of the interest on the Bonds from gross income for Federal income tax purposes is subject to the following exceptions:

1. Property and casualty insurance companies are required for taxable years beginning after December 31, 1986, to reduce the amount of their deductible underwriting losses by 15% of the amount of tax-exempt interest received or accrued on obligations acquired after August 7, 1986, including the Bonds. If the amount of this reduction exceeds the amount otherwise deductible as losses incurred, such excess may be includable in income.
2. Interest on the Bonds will be included in the measure of modified alternative minimum taxable income for purposes of computing the environmental tax imposed on corporations (at a 0.12% rate on the amount of such income in excess of \$2,000,000 for taxable years beginning prior to 1992 by the Code).

3. Interest on the Bond shall be included in calculating the earnings and profits of the United States of America branch of a foreign corporation attributable to income which is effectively connected with a United States of America trade or business for purposes of the branch profits tax imposed by the Code.
4. Recipients of certain social security and certain railroad retirement benefits, pursuant to Section 88 of the Code, are required to take into account in determining gross income, receipts or accruals of interest on the Bonds.
5. Passive investment income, including interest on the Bonds, may be subject to Federal income taxation under Section 1375 of the Code for a Subchapter S corporation that has Subchapter C corporation earnings and profits at the close of the taxable year if greater than 25% of the gross receipts of such Subchapter S corporation is passive investment income.

PROSPECTIVE PURCHASERS OF THE BONDS ARE ADVISED TO CONSULT THEIR OWN TAX ADVISORS PRIOR TO ANY PURCHASE OF THE BONDS WITH RESPECT TO THE FEDERAL INCOME TAX CONSEQUENCES OF SUCH PURCHASE.

ABSENCE OF MATERIAL LITIGATION

There is no controversy or litigation of any nature now pending or threatened restraining or enjoining the issuance, sale, execution or delivery of the Bonds, or in any way contesting or affecting the validity of the Bonds or any proceedings of the City taken with respect to the issuance or sale thereof.

APPROVAL OF LEGALITY

Bond Counsel has reviewed the Official Statement with regard to all matters pertaining to the legality and tax exemption of the Bonds, including statements concerning the authority, purpose and security of the Bonds; but Bond Counsel has not reviewed any of the financial statements or calculations, such as debt service requirements, budget estimates, revenues, expenditures or other financial information in the Official Statement, and expresses no opinion thereon and assumes no responsibility in connection therewith.

FINANCIAL ADVISOR

The Bonds will be sold by the solicitation and receipt of competitive bids. First Kentucky Securities Corporation, Frankfort, Kentucky, Financial Advisor to the City, has requested and received permission and approval of the City to bid, either alone or in conjunction with others, on the Bonds. The Financial Advisor has expressed its intent to so bid.

First Kentucky Securities Corporation will be paid a fee for financial advisory services rendered. Said fee is in addition to, and separate from, compensation received, if any, for underwriting the Bond issue.

RATING

Standard & Poor's Corporation has given the Bonds the rating set forth on the cover page of this Official Statement. Such rating reflects only the opinion of such organization. There can be no assurance that such rating will be maintained for any given period of time or that it will not be revised or withdrawn entirely. Any downward revision or withdrawal of such rating may have a material adverse effect on the market price of the Bonds.

FINAL OFFICIAL STATEMENT

The City shall provide to the successful purchaser a Final Official Statement in accordance with SEC Rule 15c2-12. Arrangements have been made with the printer of the Preliminary Official Statement, upon submission of completion text, to print a reasonable quantity of Final Official Statements in sufficient time to meet the delivery requirements of the successful bidder under SEC or Municipal Securities Rulemaking Board delivery requirements. The successful bidder shall be required to pay for the printing of the Final Official Statement.

All quotations from, and summaries and explanations of, the Kentucky Revised Statutes and the Bond Ordinance contained herein do not purport to be complete, and reference is made to such laws and documents for full and complete statements of their provisions. Copies, in reasonable quantity, of the Bond Ordinance may be obtained from First Kentucky Securities Corporation, P. O. Box 554, Frankfort, Kentucky 40602-0554.

Any statements in this Official Statement involving matters of opinion, whether or not expressly so stated, are intended as such and not as representations of fact. This Official Statement is not to be construed as a contract or agreement between the City and the purchasers or holder of any of the Bonds.

CITY OF CYNTHIANA, KENTUCKY

/s/ Melvin E. Hampton
Melvin E. Hampton, Mayor

ATTEST:

/s/ Janice F. Tolle
Janice F. Tolle, City Clerk

CITY OF CYNTHIANA
ALLOCATION OF DEBT SERVICE

| | | | | | | |
|--------------------------------|-------------|--------------|--------------------|------------|----------|------------|
| CURRENT OUTSTANDING DEBT ISSUE | Series 1992 | \$ 5,820,000 | FY 99
Principal | \$ 385,000 | Interest | \$ 263,299 |
|--------------------------------|-------------|--------------|--------------------|------------|----------|------------|

The 1992 series (\$5,820,000) was used to refund outstanding debt from 1978 and 1987.

The 1978 series was itself a refunding issue for prior debt related primarily for sewer. The balance refunded in 1992 was \$ 1,375,000

The 1987 series was used to finance the new pump station and other related water improvemets. The balance refunded in 1992 was \$ 4,465,000

Review of the schedule of fixed assets indicates the following were acquired in the 1987 issue:

| | | | | % | |
|----------------------------------|----|--------------|----------|---|-----|
| Water intake and line extensions | WP | \$ 3,231,056 | 0.758191 | | 0.8 |
| Tower | WD | 390,998 | 0.091751 | | 0.1 |
| Sewer | ST | 472,999 | 0.110993 | | 0.1 |
| Engineering/plant | WP | 166,480 | 0.039066 | | |
| | | \$ 4,261,533 | | 1 | |

| | | | | | | | |
|--------------------|----------------------|---------|------------|-------|------------|----|---------|
| | 4465000/5820000=.764 | | | | | | |
| Water Production | 4465000/5820000=.764 | .764*.8 | | 0.611 | \$ 235,235 | \$ | 160,876 |
| Water Distribution | 4465000/5820000=.764 | .764*.1 | | 0.077 | \$ 29,645 | \$ | 20,274 |
| Sewer Collection | | | | 0 | \$ - | \$ | - |
| Sewer Treatment | 4465000/5820000=.764 | .764*.1 | .0764+.235 | 0.312 | \$ 120,120 | \$ | 82,149 |
| | 1375000/5820000=.235 | | | 1 | | | |

CITY OF CYNTHIANA

REQUEST:

Refer to Cynthiana's Response to Harrison County's Supplemental Data Requests of November 29, 1999, Item 2.

- a. Does Cynthiana agree that any increase in its wholesale rate to Harrison County without a corresponding increase in its lowest user rate category will deprive Harrison County of a protection the 1987 Water Purchase Contract conferred upon Harrison County and will remove a duty which the 1987 Water Purchase Contract imposed upon Cynthiana?
- b. If no, explain why not.

RESPONSE:

- a. No, the City of Cynthiana disagrees with the proffered contract interpretation.
- b. Paragraph 11 of the contract provides in pertinent part:

This contract is subject to such rules, regulations or laws that may be applicable to similar agreements in this State

Part of the laws applicable to similar agreements in this State is the requirement that the City of Cynthiana collect and receive, with respect to any rate regulated by the Public Service Commission of Kentucky, "fair, just and reasonable rates for services rendered" KRS 278.030(1).

Even in the absence of paragraph 11, "those relationships defined by contract are subject to change by subsequent legislation under a reasonable exercise of the state's police power." City of Covington v. Sanitation District No. 1 of Campbell and Kenton Counties, Ky., 301 S.W.2d 885, 888 (1957). The regulation of utility rates is part of the state's police power. City of Florence v. Owen Electric Cooperative, Inc., Ky., 832 S.W.2d 876, 881 (1992) (state has the "right to exercise police power and the right to implement control of rates and services of the utilities....") Indeed, the courts long have recognized that the Commission's authority to fix rates cannot be limited by contract. Fern Lake Company v. Public Service Commission, Ky., 357 S.W.2d 701, 704 (1962) ("it is a well established rule that the Commission has authority to change rates upon a proper showing and that its power may not be limited by contract....");

Witness: Mayor Virgie Wells

Board of Education of Jefferson County v. William Dohrman, Inc., Ky. App., 620 S.W.2d 328, 329 (1981) (“Strictly speaking, the Commission had the right and duty to regulate rates and services, no matter what a contract provided”).

Witness: Mayor Virgie Wells

CITY OF CYNTHIANA

REQUEST:

- a. Does Cynthiana provide fire protection service to its residents?
- b. If yes,
 - (1) How does Mr. Miller's cost-of-service study reflect Cynthiana's provision of such service?
 - (2) If Mr. Miller's cost-of-service study does not reflect Cynthiana's provision of fire protection service, explain why not.

RESPONSE:

- a. Yes.
- b.
 - (1) Exhibit 3 to Mr. Miller's Cost of Service Study (Sheet 9 of 15, Response of the City of Cynthiana to Item 23 of the Commission's Order dated October 1, 1999) shows that 95,400 gallons of water were used by the City's fire department. This amount, along with other city uses, is included in the denominator ($718,332 = 622,694.4 + 11,156.5 + 84,481.0$) of calculations of the allocation factors. The effect of this calculation is to allocate exclusively to the city all water used by the city for fire protection services.
 - (2) Not applicable.

Witness: Carlos Miller

CITY OF CYNTHIANA

REQUEST:

Refer to Cynthiana's Response to Harrison County's Supplemental Data Requests of November 29, 1999, Item 7. As of the date of this Order, Cynthiana has yet to respond to this request. State when Cynthiana expects to submit its response.

RESPONSE: The City believes the Commission is referring to its Response to Harrison County Water Association's Supplemental Data Requests of November 29, 1999, Item 6. The requested information is supplied in Response to Item 2 of Harrison County Water Association's Second Supplemental Data Request.

Witness: Joe Lewis, Quest Engineers



COMMONWEALTH OF KENTUCKY
PUBLIC SERVICE COMMISSION

730 SCHENKEL LANE
POST OFFICE BOX 615
FRANKFORT, KY. 40602
(502) 564-3940

January 4, 2000

To: All parties of record

RE: Case No. 1999-300

We enclose one attested copy of the Commission's Order in
the above case.

Sincerely,

A handwritten signature in black ink that reads "Stephanie Bell". The signature is written in a cursive style with a large initial 'S'.

Stephanie Bell
Secretary of the Commission

SB/sa
Enclosure

Virgie Florence Wells
Mayor
City of Cynthiana
P.O. Box 67
Cynthiana, KY 41031

William R. Toadvine
President
Harrison County Water
Association, Inc.
P. O. Box 215
Cynthiana, KY 41031

Honorable Bruce F. Clark,
Honorable Mark R. Overstreet
Counsel for City of Cynthiana
Stites & Harbison
421 West Main Street
P.O. Box 634
Frankfort, KY 40602 0634

Honorable Dorothy Jo Mastin,
Counsel for Harrison County Water
9 South Walnut Street
Cynthiana, KY 41031

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

PROPOSED ADJUSTMENT TO THE WHOLESALE)
WATER RATES OF THE CITY OF CYNTHIANA,) CASE NO. 99-300
KENTUCKY)

ORDER

IT IS ORDERED that the city of Cynthiana, Kentucky ("Cynthiana") shall file the original and 8 copies of the following information with the Commission no later than January 18, 2000, with a copy to all parties of record. Each copy of the information requested should be placed in a bound volume with each item tabbed. When a number of sheets are required for an item, each sheet should be appropriately indexed, for example, Item 1(a), Sheet 2 of 6. Include with each response the name of the witness who will be responsible for responding to questions relating to the information provided. Careful attention should be given to copied material to ensure its legibility. When the requested information has been previously provided in this proceeding in the requested format, reference may be made to the specific location of that information in responding to this Order.

1. Refer to Cynthiana's Response to the Commission's Order of October 1, 1999, Item 23.
 - a. Who prepared the breakdown of operating and maintenance expenses set forth in Appendix A?
 - b. Does Mr. Miller agree with the allocation of these expenses between production and distribution?

c. Using the breakdown of expenses set forth in Appendix A and making any necessary revisions, provide a schedule that shows each of the expenses categories set forth in Appendix A, the total amount of that expense, the allocation factor from Exhibit 7 applied to that expense, and the total amount of each expense allocated to Harrison County. The resulting rate from these allocations should equal the proposed wholesale rate as set forth in Exhibit 7. Identify any revisions made to the breakdown set forth in Appendix A.

2. Refer to Cynthiana's Response to the Commission's Order of October 1, 1999, Item 23.

- a. What allocation factor was used to allocate chemical expense?
- b. Why should chemical expense not be allocated based on the usage factor of 0.4742?

3. a. Explain why Cynthiana has retained outside counsel to prosecute its application rather than using the services of its City Attorney.

b. Provide all documents showing that the Cynthiana City Commission has authorized the employment of outside counsel.

c. Provide all agreements between Cynthiana and its counsel that discuss compensation for legal services to prosecute Cynthiana's application for rate adjustment.

4. Refer to Cynthiana's Response to the Commission's Order of October 1, 1999, Item 23, Exhibit 7. Why is the proposed allocation of 100 percent of rate case expense to Harrison County Water Association ("Harrison County") appropriate?

5. Refer to Cynthiana's Response to the Commission's Order of October 1, 1999, Item 23, Exhibit 7. Why is the use of the water production allocation factor of

.4697 more appropriate when allocating depreciation expense on the proposed raw water pump amount allocated to Harrison County than the use of the transmission factor of 0.4404?

6. Refer to Cynthiana's Response to the Commission's Order of November 29, 1999, Item 21. Provide a detailed itemization of Cynthiana's rate case expenses. This itemization shall, at a minimum, identify each service for which Cynthiana was billed, the hourly rate for such service, and the number of hours worked.

7. Refer to Cynthiana's Response to the Commission's Order of November 29, 1999, Item 21.

a. Why has the estimate of "rate case legal services" been increased to \$35,000?

b. What is the "evolving complexity of the case" to which Cynthiana refers in its response?

8. Refer to Cynthiana's Response to the Commission's Order of November 29, 1999, Item 20, Sheet 1. This sheet is the first sheet of Cynthiana's Response to the Commission's Order of November 29, 1999, Item 21. Provide the first sheet of Cynthiana's Response to Item 20.

9. Refer to Cynthiana's Response to the Commission's Order of November 29, 1999, Item 20(c).

a. (1) Does Cynthiana intend to update its revenues, expenses, and capital to the time period in which the proposed raw water pump is acquired and placed into service?

(2) If yes, state when Cynthiana intends to submit this information to the Commission.

b. If Cynthiana does not intend to update these items, explain why the Commission should deviate from its decision in Case No. 10481¹ and allow the proposed adjustments for the acquisition and installation of the proposed raw water pump for rate-making purposes?

10. a. Does Cynthiana intend to file a revised rate schedule to reflect its current proposed rate of \$2.20 per 1,000 gallons?

b. If no, why not?

11. Refer to Cynthiana's Response to the Commission's Order of November 29, 1999, Item 2. In light of the Commission's decision in Case No. 96-616,² does Cynthiana intend to enact an ordinance setting forth its proposed rate?

12. a. List and describe all discussions between Cynthiana and Harrison County since January 1, 1998 regarding changes in Cynthiana's wholesale water rate.

b. Provide all documents, including correspondence and internal memorandum, in which changes to Cynthiana's existing wholesale water rate were discussed.

13. a. What fee was Cynthiana assessed for Mr. Hensley's "full cost analysis of water and sewer services"?

b. Has Cynthiana reviewed or commissioned a review of its operations for the months since September 30, 1999 to determine if its operations for July 1999 were representative of its normal operations?

¹ Case No. 10481, Notice of Adjustment of the Rates of Kentucky-American Water Company Effective on February 2, 1989 (August 22, 1989).

² Case No. 96-616, The Application of Winchester Municipal Utilities for Approval of the Collection of System Development Charges (October 3, 1997).

14. Refer to Cynthiana's Response to the Commission's Order of November 29, 1999, Item 9(a). Provide a schedule that compares Cynthiana's allocation of salaries and payroll costs to each city division for each month of the period from July 1, 1999 through December 31, 1999.

15. Refer to Cynthiana's Response to the Commission's Order of November 29, 1999, Item 12(c)(1). How should postage expense be allocated between the general fund, water division and sewer division? Explain.

16. Refer to Cynthiana's Response to the Commission's Order of November 29, 1999, Item 18(c). What is the basis for Mr. Hensley's statement that "[t]he 'lives' used are within acceptable practices used by most municipal entities"?

17. Refer to Cynthiana's Response to the Commission's Order of November 29, 1999, Item 17. As of the date of this Order, Cynthiana has yet to provide the requested workpapers and supporting documents. State when Cynthiana expects to submit these documents.

18. Refer to Cynthiana's Response to Harrison County's Supplemental Data Requests of November 29, 1999, Item 2.

a. Does Cynthiana agree that any increase in its wholesale rate to Harrison County without a corresponding increase in its lowest user rate category will deprive Harrison County of a protection the 1987 Water Purchase Contract conferred upon Harrison County and will remove a duty which the 1987 Water Purchase Contract imposed upon Cynthiana?

b. If no, explain why not.

19. a. Does Cynthiana provide fire protection service to its residents?

b. If yes,

(1) How does Mr. Miller's cost-of-service study reflect Cynthiana's provision of such service?

(2) If Mr. Miller's cost-of-service study does not reflect Cynthiana's provision of fire protection service, explain why not.

20. Refer to Cynthiana's Response to Harrison County's Supplemental Data Requests of November 29, 1999, Item 7. As of the date of this Order, Cynthiana has yet to respond to this request. State when Cynthiana expects to submit its response.

Done at Frankfort, Kentucky, this 4th day of January, 2000.

By the Commission

ATTEST:


Executive Director

Dorothy Jo Mastin
Attorney at Law

9 S. Walnut Street
Cynthiana, Kentucky 41031

Office: 606-235-9000
Fax: 606-235-0186

FILED

JAN 04 2000

**PUBLIC SERVICE
COMMISSION**

January 3, 2000

Hon. Helen Helton
Executive Director
Public Service Commission
730 Schenkel Lane
P. O. Box 615
Frankfort, Kentucky 40602

Re: In the Matter Of: Proposed Adjustment of the Wholesale Water
Service Rates of the City of Cynthiana, Kentucky
Case No. 99-300

Dear Ms. Helton:

Please find enclosed an original and ten copies of Second Set of Supplemental Requests for Information from the Harrison County Water Association, Inc. to the City of Cynthiana, Kentucky, which I have prepared in the above styled matter. I would appreciate your filing this in the record.

If you have any questions about this, please feel free to contact me.

Sincerely,



Dorothy Jo Mastin
Attorney at Law

DJM:sjw

Enclosures

FILED

JAN 04 2000

COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

PUBLIC SERVICE
COMMISSION

In the Matter of:

PROPOSED ADJUSTMENT OF THE)
WHOLESALE WATER SERVICE RATES OF)
THE CITY OF CYNTHIANA, KENTUCKY)

ADMINISTRATIVE
CASE NO. 99-300

SECOND SET OF SUPPLEMENTAL REQUESTS FOR INFORMATION
FROM THE HARRISON COUNTY WATER ASSOCIATION, INC.
TO THE CITY OF CYNTHIANA, KENTUCKY

* * * * *

In accordance with the Order of the Commission, styled Appendix A, the Harrison County Water Association, Inc., hereinafter "Water Association", hereby advances the Second Set of Supplemental Requests for Information to the City of Cynthiana, Kentucky.

1. In Response to Request No. 4 (Item No. 4, Sheet 1 of 1), the City responds to the question, "When was the 16" waterline built from the filtration pump to the Bundy tower and for what purpose was the waterline built?" Answer: "1989, to increase pumping efficiency and to allow more water to be stored near the perimeter of the distribution system ..." The City then noted as witnesses to this answer - Carlos Miller and Joe Lewis of Quest Engineers, Inc. The Water Association seeks the following answers:

a) Please explain the witnesses' affiliation with said project?

b) If they were directly involved, please provide documentation and design information for the project?

c) If they were not, please provide documentation and design information for the project and the name or names of the engineers involved.

2. In Response to Request No. 6 (Item No. 6, Sheet 1 of 1), the City's response used the word "seasonably", please clarify what is meant by "seasonably" and when can we expect this response to be complete?

3. In Response to Request No. 8 (Item No. 8, Sheet 1 of 1), the Water Association asked the City to please clarify how the City of Cynthiana came up with the inch mile data for pipe jointly used with the Water Association. The City provided a response, however, the map (Item No. 15, Sheet 1 of 2) provided is inadequate and the Water Association cannot determine line size and distance from the map. Please provide legible system map or supporting data, which may include the hydraulic model input and accompanying schematic, that clearly identifies line size and length that was used in determining inch mile data for pipe jointly used with the Association.

4. In the City's response to Request No. 5 (Item 5, Sheets 1 and 2 of 2), please provide corresponding drawings and other design information relative to the Raw Water Pump Station and the estimate provided.

5. Please provide minutes or detailed information regarding the meeting the City of Cynthiana held on June 15, 1999, with Mayor Wells, other city employees, Don Hassell of Bluegrass Area Development District, and Kelly Rice of the Division of Water. (This meeting is referred to in Volume 1, Item No. 6 and Item No. 8, Sheet 1 of 1.)

Respectfully requested,

DOROTHY JO MASTIN
Attorney at Law
9 South Walnut Street
Cynthiana, Kentucky 41031
Telephone: (606) 235-9000

Dorothy Jo Mastin

COUNSEL FOR HARRISON COUNTY WATER
ASSOCIATION, INC.

CERTIFICATE OF SERVICE

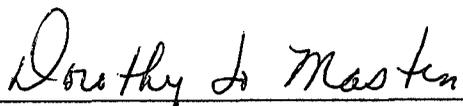
I hereby certify that I have this day hand delivered a true and accurate copy of the foregoing Motion upon Hon. Helen Helton, Executive Director, Public Service Commission, 730 Schenkel Lane, P. O. Box 615, Frankfort, KY 40602, and have this day mailed a true and accurate copy of the foregoing Motion upon the following parties of record, this the 4th day of January, 2000:

Hon. Gerald Wuetcher
General Counsel
Public Service Commission
730 Schenkel Lane
P. O. Box 615
Frankfort, KY 40602

William R. Toadvine, President
Harrison County Water
Association, Inc.
P. O. Box 215
Cynthiana, KY 41031

Bruce F. Clark
Michele M. Whittington
Stites & Harbison
421 West Main Street
P. O. Box 634
Frankfort, KY 40602-0634

Virgie Florence Wells
Mayor
City of Cynthiana, KY
P. O. Box 67
Cynthiana, KY 41031



Counsel for Harrison County Water
Association, Inc.



COMMONWEALTH OF KENTUCKY
PUBLIC SERVICE COMMISSION
730 SCHENKEL LANE
POST OFFICE BOX 615
FRANKFORT, KY. 40602
(502) 564-3940

November 29, 1999

To: All parties of record

RE: Case No. 1999-300

We enclose one attested copy of the Commission's Order in the above case.

Sincerely,

A handwritten signature in black ink that reads "Stephanie Bell".

Stephanie Bell
Secretary of the Commission

SB/sa
Enclosure

A stylized, outlined logo for "RUSH" in a bold, blocky font.

A handwritten number "9" in black ink.

Need by _____

Requested by _____

Post-it™ rush request pad 7666

Virgie Florence Wells
Mayor
City of Cynthiana
P.O. Box 67
Cynthiana, KY 41031

William R. Toadvine
President
Harrison County Water
Association, Inc.
P. O. Box 215
Cynthiana, KY 41031

Bruce F. Clark,
Counsel for City of Cynthiana
Stites and Harbison
421 West Main Street
P.O. Box 634
Frankfort, KY 40602 0634

Dorothy Jo Mastin,
Counsel for Harrison County Water
9 South Walnut Street
Cynthiana, KY 41031

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

PROPOSED ADJUSTMENT OF THE WHOLESALE)
WATER SERVICE RATES OF THE CITY OF) CASE NO. 99-300
CYNTHIANA, KENTUCKY)

ORDER

IT IS ORDERED that the city of Cynthiana, Kentucky ("Cynthiana") shall file the original and 8 copies of the following information with the Commission no later than December 13, 1999, with a copy to all parties of record. Each copy of the information requested should be placed in a bound volume with each item tabbed. When a number of sheets are required for an item, each sheet should be appropriately indexed, for example, Item 1(a), Sheet 2 of 6. Include with each response the name of the witness who will be responsible for responding to questions relating to the information provided. Careful attention should be given to copied material to ensure its legibility. When the requested information has been previously provided in this proceeding in the requested format, reference may be made to the specific location of that information in responding to this Order.

1. a. Has Cynthiana enacted an ordinance establishing the proposed wholesale rate to the Harrison County Water Association?

b. (1) If yes, provide a copy of this ordinance.

(2) If no, state why no ordinance has been enacted as of the date of this Order.

2. At page 2 of his direct testimony, Mr. Hensley states that Cynthiana commissioned him to prepare a "full cost analysis of the water and sewer services of the City" and that to prepare this analysis he reviewed and recapped the time charges for the months of July, August, and September 1999. Provide Mr. Hensley's analysis and all workpapers used to prepare this analysis.

3. Explain how Mr. Hensley determined that July 1999 was "representative of the amount of time and cost spent by the Public Works department on water related matters."

4. a. Does Mr. Hensley agree that Cynthiana and its surrounding area was experiencing drought conditions during the months of July, August, and September 1999?

b. If yes,

(1) Describe how these drought conditions would affect the operations of the Public Works Department as they relate to water matters.

(2) Why would a time analysis of this 3-month period be representative of the Public Works Department's normal operations?

5. How did Cynthiana allocate the hours and salaries of its Public Works Department to its Water and Sewer Divisions prior to Mr. Hensley's full cost analysis?

6. Why is Cynthiana proposing to change its method of allocating the hours and salaries of its Public Works Department to the Water and Sewer Divisions?

7. Why is it reasonable in this proceeding to apply the results of a 1-month time study to a 12-month period of operations?

8. State when Mr. Hensley was retained to perform his full cost analysis for Cynthiana.

9. a. State whether Cynthiana currently requires its employees in the Finance, Public Affairs, and Public Works Departments to record their time by function.

b. If no, explain why Cynthiana discontinued this requirement.

10. a. Refer to Cynthiana's Response to the Commission's Order of October 1, 1999, Item 6 (Supplemental Response). Provide the following information for each of the Public Works employees listed on Exhibit 2.

(1) Total regular hours worked during the fiscal year ended June 30, 1999.

(2) Total overtime hours worked during the fiscal year ended June 30, 1999.

(3) Using the allocation methodology that Cynthiana used prior to Mr. Hensley's "full cost analysis," provide the regular and overtime hours allocated to each division during the fiscal year ended June 30, 1999.

(4) Using the allocation methodology resulting from Mr. Hensley's "full cost analysis," provide the regular and overtime hours allocated to each division during the fiscal year ended June 30, 1999.

(5) The wage rates effective during the fiscal year ended June 30, 1999.

(6) The wage rates currently in effect.

b. Calculate the Public Works Department employees pro forma salaries using the allocation methodology that Cynthiana used prior to Mr. Hensley's

"full cost analysis," the regular hours worked during the fiscal year ended June 30, 1999, the overtime hours worked during the fiscal year ended June 30, 1999, and the wage rates currently in effect.

c. Calculate the Public Works Department employees pro forma salaries using allocation methodology resulting from Mr. Hensley's "full cost analysis," the regular hours worked during the fiscal year ended June 30, 1999, the overtime hours worked during the fiscal year ended June 30, 1999, and the wage rates currently in effect.

11. Refer to Cynthiana's Response to the Commission's Order of October 1, 1999, Item 6 (Original Response), Sheet 3 of 3.

a. Do any of the Water Department employees listed on this schedule perform work for the Sewer Department?

b. If yes, describe how these employees' hours and salaries are allocated to the Sewer Division.

c. Provide the following information for each Water Department employee listed on this schedule:

(1) Total regular hours worked during the fiscal year ended June 30, 1999.

(2) Total overtime hours worked during the fiscal year ended June 30, 1999.

(3) The wage rates effective during the fiscal year ended June 30, 1999.

(4) The wage rates currently in effect.

d. Calculate the Water Department's employee pro forma salaries using (1) the regular hours worked during the fiscal year ended June 30, 1999; (2) the overtime hours worked during the fiscal year ended June 30, 1999; and (3) the wage rates currently in effect.

12. a. Refer to Cynthia's Response to the Commission's Order of October 1, 1999, Item 1b, Exhibit 1 ("Cost Analysis with Additional Labor"). For each account listed below, provide a detailed analysis:

| | | |
|-----|----------------------------|-----------|
| (1) | Repairs | \$ 6,139 |
| (2) | Chemicals | \$ 26,839 |
| (3) | Office Supplies | \$ 5,164 |
| (4) | Other Supplies | \$ 73,620 |
| (5) | Purchase of Capital Assets | \$ 16,947 |
| (6) | Columbia Gas | \$ 16,796 |

b. Provide supporting invoices for all items contained in the accounts listed above that exceed \$500.

c. Explain why the following expense accounts are not allocated between the water and sewer divisions:

| | | |
|-----|-------------------|----------|
| (1) | Postage | \$ 7,929 |
| (2) | Audit | \$ 2,000 |
| (3) | Bond Fees | \$ 1,000 |
| (4) | Linen Services | \$ 432 |
| (5) | Testing Equipment | \$ 393 |

d. Provide a detailed breakdown of "Other Income" in the amount of \$15,973.

13. Provide a 5-year comparison of the water division's chemical expense.

14. Provide the contribution rate Cynthiana makes to its employees retirement account.

15. a. Provide the following insurance invoices for 1998 and 1999:

- (1) Workers Compensation.
- (2) Property & Liability.
- (3) Employee – Health Insurance.
- (4) Employee – Dental Insurance.
- (5) Other Insurance Coverage.

b. For each insurance policy listed above, provide the methodology used to allocate the cost between the water and sewer divisions. Include the basis to support the use of each methodology.

16. a. Refer to Cynthiana's Response to the Commission's Order of October 1, 1999, Item 5a, Sheet 24 of 43. It appears that the bond ordinance requires a minimum debt service coverage of 1.25 percent. Explain why a 1.20 percent debt service coverage was used in Cynthiana's cost-of-service study.

b. Recalculate Cynthiana's cost of service using a 1.25 percent debt service in place of the requested 1.20 percent.

17. Refer to the Direct Testimony of Carlos F. Miller at 6. Provide the workpapers and supporting documents used to develop the debt service factors used to allocate the principal and interest payments to the Water Department.

18. Refer to Cynthiana's Response to the Commission's Order of October 1, 1999, Item 9.

a. Does Cynthiana allocate the depreciation of the trucks and maintenance vehicles or office equipment between its Water and Sewer Departments?

b. If no, explain why these expenses are not allocated between these departments.

c. Provide the basis for the following depreciation lives:

| | | |
|-----|---------------------------|----------|
| (1) | Plant | 33 Years |
| (2) | Engineering Fees | 20 Years |
| (3) | Intake, Pumping Imp. | 33 Years |
| (4) | Water Distribution System | 33 Years |

19. Refer to the Direct Testimony of Carlos F. Miller at 5. Provide a detailed analysis of the incremental drought cost of \$78,848. Provide a copy of the supporting invoice for any item that exceeds \$500.

20. a. At page 5 of his Direct Testimony, Mr. Miller states that Cynthiana will install a back-up raw water pump in January 2000 at an estimated cost of \$143,185. Provide supporting documentation for the estimated cost and explain why a back-up pump needs to be installed.

b. Cynthiana's depreciation schedule shows that a new motor and pump was depreciated over 20 years and an "intake pumping imp." was depreciated over 33 years. Explain why a 10-year depreciation life is appropriate for this proposed pump.

c. In Case No. 10481,¹ the Commission gave notice that "adjustments for post test-period additions to plant in service should not be requested unless all revenues, expenses, rate base, and capital items have been updated to the same period as the plant additions."

(1) Has Cynthiana updated its revenues, expenses, rate base, and capital to the same period as its system improvement?

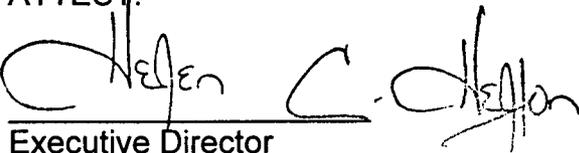
(2) If yes, identify each item that has been updated to reflect the same period.

21. Provide all workpapers, calculations and assumptions used to calculate Cynthiana's estimated rate case expense. Include all invoices received to date for the following outside services: engineering, accounting, and legal.

Done at Frankfort, Kentucky, this 29th day of November, 1999.

By the Commission

ATTEST:


Executive Director

¹ Case No. 10481, Notice of Adjustment of the Rates of Kentucky-American Water Company Effective on February 2, 1989, Order issued August 22, 1989.

9 S. Walnut Street
Cynthiana, Kentucky 41031

Dorothy Jo Mastin
Attorney at Law

Office: 606-235-9000
Fax: 606-235-0186

November 24, 1999

Ms. Helen Helton
Executive Director
Public Service Commission
730 Schenkel Lane
P. O. Box 615
Frankfort, Kentucky 40601

RECEIVED
NOV 24 1999
PUBLIC SERVICE
COMMISSION

Re: City of Cynthiana
Case No. 99-300

Dear Ms. Helton:

I am enclosing a Supplemental Request for information to the City of Cynthiana.

I have also served the City of Cynthiana with this request as I realize they must respond before December 13, 1999.

If you have any questions about this, please let me know.

Sincerely,

D. J. Mastin

Dorothy Jo Mastin
Attorney at Law

DJM:sjw

Enclosure

RECEIVED
NOV 24 1999
PUBLIC SERVICE
COMMISSION

COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

PROPOSED ADJUSTMENT OF THE)
WHOLESALE WATER SERVICE RATES OF) ADMINISTRATIVE
THE CITY OF CYNTHIANA, KENTUCKY) CASE NO. 99-300

SUPPLEMENTAL REQUESTS OF THE HARRISON
COUNTY WATER ASSOCIATION, INC. TO THE
CITY OF CYNTHIANA

* * * * *

In accordance with the Order of the Commission, styled Appendix A, the Harrison County Water Association, Inc., hereby makes the following Supplemental Requests for information to the City of Cynthiana.

1. Why are the new pump and pumping costs (Item 23, Exhibit 5, Item 5) and the Cost of Drought (Item 23, Exhibit 5, Item 3, Sheet 11 of 15) included in the cost estimate as these items are outside the test period of June 30, 1998, to June 30, 1999?

2. Is it the intention of the City of Cynthiana to raise all "lowest user rates" to \$2.11 or just Harrison County Water Association, Inc.? If so, is this not contrary to the

current contract between Harrison County Water Association, Inc.
and the City of Cynthiana, to-wit:

"It is further agreed and understood by and between the parties that during the term of this contract and any extension or renewal hereof, the Purchaser shall pay the same rate as the Sellers' lowest user rate category and lowest user of the Seller pays, whether such user is residential, industrial, commercial or otherwise. Any increase or decrease in rate shall be based on demonstrable increases or decreases in the costs of performance hereunder. Moreover, it is agreed by and between the parties that there shall be no change in the incremental classifications or the usage classifications so as to negate this provision requiring the Seller to supply to the Purchaser its water needs at the lowest rate charged any of its customers." (See Exhibit 1A, Sheet 11 and 12 of 19, Pages 3 and 4, Paragraph 6.)

"Purchaser agrees to pay the minimum water bill charged to the Sellers other customers." (Page 4, Paragraph 8.)

3. Is the City of Cynthiana seeking to void the contract between the City of Cynthiana and the Harrison County Water Association, Inc. by referring to the Harrison County Water Association, Inc., as a wholesale vendor rather than a Purchaser?

4. When was the 16" waterline built from the filtration pump to the Bundy tower and for what purpose was the waterline built? (Item No. 23, Exhibit 2, Sheet 8 of 15.)

5. Please provide a copy of the engineering estimate on the new raw water pump (Item 23, Exhibit 5, Number 5, Sheet 11 of 15.)

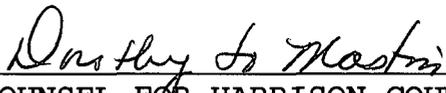
6. How many years before the City of Cynthiana Water Plant anticipates needing an upgrade to meet new regulations?

7. Please provide Case Numbers for the cases handled by Carlos F. Miller, PE of Kenvirons, who developed rate schedules acceptable to the Public Service Commission? (See Item 23, Sheet 4 of 15.) Mr. Miller is the expert employed by the City of Cynthiana whose deposition appears at 1C, Sheet 1 of 8.

8. In Item 23, Exhibit 2, Sheet 8 of 15, please clarify how the City of Cynthiana came up with the inch mile data for pipe jointly used with the Harrison County Water Association, Inc.?

Respectfully submitted,

DOROTHY JO MASTIN
9 South Walnut Street
Cynthiana, Kentucky 41031
Telephone: (606) 235-9000

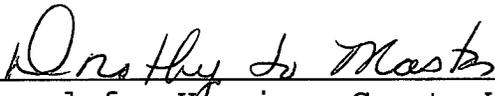

COUNSEL FOR HARRISON COUNTY WATER
ASSOCIATION, INC.

CERTIFICATE OF SERVICE

I hereby certify that I have this day mailed a true and accurate copy of the foregoing Supplemental Requests of the Harrison County Water Association, Inc. to the City of Cynthiana, upon the following parties of record, this the 29th day of November, 1999.

Bruce F. Clark
Michele M. Whittington
Stites & Harbison
421 West Main Street
P. O. Box 634
Frankfort, KY 40602-0634

William R. Toadvine, President
Harrison County Water
Association, Inc.
P. O. Box 215
Cynthiana, KY 41031



Counsel for Harrison County Water
Association, Inc.

STITES & HARBISON

ATTORNEYS

November 19, 1999

421 West Main Street
Post Office Box 634
Frankfort, KY 40602-0634
[502] 223-3477
[502] 223-4124 Fax
www.stites.com

BY HAND DELIVERY

Ms. Helton Helton
Executive Director
Public Service Commission
730 Schenkel Lane
Frankfort, KY 40601

RECEIVED

NOV 19 1999

PUBLIC SERVICE
COMMISSION

RE: City of Cynthiana - Case No. 99-300

Bruce F. Clark
[502] 209-1214
bclark@stites.com

Dear Ms. Helton:

As indicated in my letter of November 15, 1999, I am filing herewith as a Supplemental Response to the Commission's Order dated October 1, 1999, the written testimony of Mr. Jerry Hensley, as well as a supplemental response to Item No. 6.

As a result of a change in Mr. Hensley's cost analysis, the cost of service study and rate request being made by the City of Cynthiana has been reduced from \$2.15 per 1,000 gallons to \$2.11 per 1,000 gallons. This adjustment is a result of a reduction in the Public Works expense associated with the water department from the original amount of \$104,117 to \$72,045. The cost of service study prepared and submitted by Kenvirons will be amended to reflect this change and filed with the Commission prior to the hearing. We sincerely regret any inconvenience this has caused Harrison County Water Association or the Commission Staff.

If you have any questions, please let me know.

Yours very truly,

STITES & HARBISON



Bruce F. Clark

BFC:pjt
Enclosures

cc: Dorothy Jo Mastin, Esq.
Mr. William R. Toadvine

CY015:000CY:3094:FRANKFORT

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

RECEIVED

NOV 19 1999

PUBLIC SERVICE
COMMISSION

In the Matter of:

PROPOSED ADJUSTMENT OF THE)
WHOLESALE WATER SERVICE RATES OF) ADMINISTRATIVE
THE CITY OF CYNTHIANA, KENTUCKY) CASE NO. 99-300

SUPPLEMENTAL RESPONSE OF CITY OF CYNTHIANA
TO COMMISSION ORDER DATED OCTOBER 1, 1999

Bruce F. Clark
Michele M. Whittington
STITES & HARBISON
421 West Main Street
P.O. Box 634
Frankfort, KY 40602-0634
Telephone: (502) 223-3477
COUNSEL FOR CITY OF CYNTHIANA

CERTIFICATE OF SERVICE

I hereby certify that a copy of this Supplemental Response was served by first class mail, postage prepaid, upon the following parties of record, this 19th day of November, 1999.

Dorothy Jo Mastin, Esq.
9 South Walnut Street
Cynthiana, KY 41031

William R. Toadvine, President
Harrison County Water Association, Inc.
P. O. Box 215
Cynthiana, KY 41031



Bruce F. Clark

DIRECT TESTIMONY OF JERRY HENSLEY

1. Please state your name.
 - A. Jerry Hensley.
2. By whom are you employed, and in what capacity?
 - A. I am a partner and owner in the CPA firm of England & Hensley, 1388 Alexandria Drive, Lexington, Kentucky 40504.
3. What type of clients do England & Hensley have?
 - A. We have a general client base, but we tend to specialize in municipalities located in Kentucky.
4. Is one of your clients the City of Cynthiana?
 - A. Yes.
5. How long have you worked with the City?
 - A. Intermittently as a staff auditor, as a contract employee or as a CPA firm partner since 1976.
6. What have you been asked to do by the City?
 - A. We provide accounting advice on a case-by-case basis, and we also prepare annual audited financial statements for the City.
7. Did England & Hensley prepare the 1999 Audited Financial Statement for the City of Cynthiana?
 - A. Yes. Attached herein is a copy of the FYE 6/30/99 Audited Financial Statement. (See Item 2, Sheets 33-64.)

8. Does the Audited Financial Statement reflect costs associated with the Water and Sewer Departments of the City during 1999?
- A. Yes they do on page 5. On page 22 of the Financial Statements is a supplemental schedule where the respective costs are reflected. The City has a very detailed recording system so that, in my opinion, the costs shown on page 22 accurately reflect costs incurred in providing water and sewer services. However, the Financial Statement costs reflected on page 22 do not capture all of the costs of operating the water system since personnel employed by the City in the Public Works and other Departments also spend time assisting water customers and providing services to the water system.
9. Could you describe the nature of these services?
- A. Yes. Earlier this year, I was asked by Mayor Wells to prepare a full cost analysis of the water and sewer services of the City. As a part of this task, the Mayor directed the Public Works and other general fund employees to code their time, assigning time to certain specific tasks. For the water and sewer operations, these tasks included billing, collection, streetcuts and line repair. Employees in the Finance, Public Affairs and Public Works Departments began recording actual time spent by function for the last pay period in June 1999, which was paid in July 1999. I reviewed and recapped their time charges for the months of July, August and September. In discussions with city personnel, it was determined that July was representative of the amount of time and cost spent by the Public Works department on water related matters. If the July charges are representative, and if they were applied to the entire fiscal year, the annual cost of water distribution would be increased by \$72,045.

10. Have you prepared a schedule showing the annual water cost for Cynthiana for FYE
6/30/99?

A. Yes. Attached hereto as Exhibit 1 is that calculation.

11. Do you also represent the Harrison County Water Association?

A. Yes.

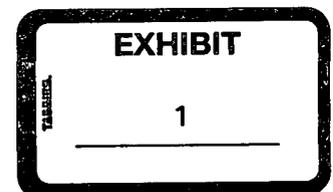
12. Does this conclude your testimony?

A. Yes.

City of Cynthiana
Cost Analysis with additional labor

FYE June 30, 1999

| | | | | | | | 1999 | 1998 |
|--|---------------------|-----------------------|---------------------|---------------------|--------------------|---------------------|---------------------|---------------------|
| | Water
Production | Water
Distribution | Total
Water | Sewer
Collection | Sewer
Treatment | Total
Sewer | Fund
Total | Fund
Total |
| OPERATING REVENUES | | | | | | | | |
| Water and Sewer Service | | | \$ 1,147,238 | | | \$ 452,750 | \$ 1,599,988 | \$ 1,639,118 |
| Other Income | | | 15,973 | | | 15,568 | 31,541 | 36,658 |
| | | | <u>1,163,211</u> | | | <u>468,318</u> | <u>1,631,529</u> | <u>1,675,776</u> |
| OPERATING EXPENSES | | | | | | | | |
| Salaries | \$ 108,925 | \$ 63,660 | 172,585 | \$ - | \$ 114,182 | 114,182 | 286,767 | 255,080 |
| Overtime and Holiday Pay | 7,897 | - | 7,897 | - | 1,031 | 1,031 | 8,928 | 15,644 |
| Salaries/FICA/Retir-Public Works | - | 72,045 | 72,045 | 30,507 | - | 30,507 | 102,552 | - |
| Employee Retirement | 8,865 | 4,773 | 13,638 | - | 9,994 | 9,994 | 23,632 | 22,501 |
| Medical and Hospital Insurance | 17,708 | 9,535 | 27,243 | - | 23,712 | 23,712 | 50,955 | 45,875 |
| Social Security | 8,631 | 4,648 | 13,279 | - | 8,242 | 8,242 | 21,521 | 19,718 |
| Unemployment | - | - | - | - | - | - | - | 168 |
| Workers' Compensation | 2,488 | 1,340 | 3,828 | - | 4,722 | 4,722 | 8,550 | 7,199 |
| Christmas bonus | 276 | 149 | 425 | - | 300 | 300 | 725 | 725 |
| Repairs | 4,176 | 1,963 | 6,139 | 48,665 | 14,249 | 62,914 | 69,053 | 153,092 |
| Electricity | 49,632 | - | 49,632 | 5,026 | 37,717 | 42,743 | 92,375 | 108,502 |
| Hauling | - | - | - | - | 29,140 | 29,140 | 29,140 | 30,445 |
| Consulting Engineers | 425 | - | 425 | 15,923 | - | 15,923 | 16,348 | 1,100 |
| Telephone | 3,994 | - | 3,994 | - | 874 | 874 | 4,868 | 5,583 |
| Insurance | 8,117 | - | 8,117 | - | 10,867 | 10,867 | 18,984 | 17,832 |
| Gas and Oil | - | 1,221 | 1,221 | - | 2,069 | 2,069 | 3,290 | 3,641 |
| Paging System | 468 | - | 468 | - | 398 | 398 | 866 | 646 |
| Columbia Gas | 16,796 | - | 16,796 | - | 2,288 | 2,288 | 19,084 | 14,861 |
| Postage | - | 7,929 | 7,929 | - | - | - | 7,929 | 9,247 |
| Chemicals | 26,839 | - | 26,839 | - | 49,873 | 49,873 | 76,712 | 96,744 |
| Analysis and Testing | 9,677 | - | 9,677 | - | 18,953 | 18,953 | 28,630 | 25,502 |
| Audit | 1,000 | 1,000 | 2,000 | - | - | - | 2,000 | 2,000 |
| Bond Fees | 1,000 | - | 1,000 | - | - | - | 1,000 | 1,000 |
| Office Supplies | - | 5,164 | 5,164 | - | 182 | 182 | 5,346 | 1,495 |
| Other Supplies | 35,071 | 38,549 | 73,620 | - | 21,826 | 21,826 | 95,446 | 109,595 |
| Linen Services | 432 | - | 432 | - | - | - | 432 | - |
| Travel and Training | 169 | 91 | 260 | - | 813 | 813 | 1,073 | 3,249 |
| Clothing Allowance | 2,603 | 1,402 | 4,005 | - | 2,467 | 2,467 | 6,472 | 6,395 |
| Testing equipment | 393 | - | 393 | - | - | - | 393 | 635 |
| Depreciation | 201,831 | 83,562 | 285,393 | 31,393 | 124,894 | 156,287 | 441,680 | 438,080 |
| Amortization | 11,820 | - | 11,820 | - | - | - | 11,820 | 11,820 |
| Total operating expenses | 529,233 | 297,031 | 826,264 | 131,514 | 478,793 | 610,307 | 1,436,571 | 1,408,374 |
| OPERATING INCOME | | | <u>\$ 336,947</u> | | | <u>\$ (141,989)</u> | <u>\$ 194,958</u> | <u>\$ 267,402</u> |
| Less Amortization | (11,820) | - | (11,820) | - | - | - | (11,820) | (11,820) |
| Add Bond Principal | 235,235 | 29,645 | 264,880 | - | 120,120 | 120,120 | 385,000 | 315,000 |
| Bond Interest | 160,876 | 20,274 | 181,150 | - | 82,149 | 82,149 | 263,299 | 279,859 |
| Purchase of capital assets | 1,409 | 15,538 | 16,947 | 59,478 | - | 59,478 | 76,425 | - |
| NET EXPENSES PLUS DEBT SERVICE
AND CAPITAL ASSETS PURCHASED | <u>\$ 914,933</u> | <u>\$ 362,488</u> | <u>\$ 1,277,421</u> | <u>\$ 190,992</u> | <u>\$ 681,062</u> | <u>\$ 872,054</u> | <u>\$ 2,149,475</u> | <u>\$ 1,991,413</u> |



CITY OF CYNTHIANA

REQUEST:

List all persons on Cynthiana's payroll during the proposed test period. For each employee, state his or her job duties, total wages paid during the fiscal year, current salary or wage rate, and the percentage of work hours spent performing duties for each city division (e.g., water, sewer, police department, public works) during the fiscal year. If Cynthiana's records do not permit the allocation of an employee's work hours among city divisions, provide an estimate for each employee and explain how Cynthiana derived the estimate.

SUPPLEMENTAL RESPONSE:

The Public Works Department of the City of Cynthiana reported detailed time schedules for the month of July, 1999, which allocated their work time between Public Works, Water and Sewer. A sample of this time schedule is attached as Exhibit 1. Mr. Hensley then derived a percentage allocation factor for water, by dividing the "water" hours by total hours. See Exhibit 2. The dollar value of this time was then determined by multiplying the allocation factor by the salary and benefits (FICA and Retirement – not health insurance) of the Public Works employee. The result (Exhibit 3) shows the following:

| | |
|----------------|-----------------|
| Water Salaries | \$62,175.87 |
| Water FICA | 4,756.45 |
| Water Pension | <u>5,110.86</u> |
| | \$72,043.18 |

Witness: Jerry Hensley

Public Works

Period from 6/18/99 to 7/12/99

Paid 7/9/99

| Date | Sat | Sun | Mon | Tues | Wed | Thurs | Fri | Sat | Sun | Mon | Tues | Wed | Thurs | Fri | Total |
|-------------------------------------|------|-----|-------|------|-----|-------|--------|------|-----|-----|------|-----|-------|-------|-------|
| 5001
Leroy Conner
Works | | | | 4 | 8 | 8 | 12 | 4 | | 4 | 4 | 8 | 8 | 8 | 60 |
| Water | | | | 4 | | | | | | | | | | | 12 |
| Sewer | | | 11.75 | | | | | | | | | | | | 11.75 |
| Total | 47.5 | | | | | | | | | | | | | | 82.5 |
| 5002
Larry Williams
Works | | | | 8 | 3 | 8 | 8-20.5 | 30.5 | | | | | | | 82.5 |
| Water | | | | 8 | 5 | | 12 | 3 | | 8 | 6 | 8 | 8 | 8 | 52.5 |
| Sewer | | | 11.75 | | | | | | | | | | | | 11.75 |
| Total | 47.5 | | | | | | | | | | | | | | 90.5 |
| 5003
Randy Hutchison
Works | | | | 8 | 3 | 8 | 8 | | | | | | | | 45 |
| Water | | | | 8 | 5 | | | | | 8 | 6 | 8 | 8 | 8 | 47 |
| Sewer | | | 11.75 | | | | | | | | | | | | 11.75 |
| Total | 43.5 | | | | | | | | | | | | | | 83.5 |
| 5004
Lawrence Nickerson
Works | | | | 8 | 8 | 8 | 1 | | | 8 | 8 | 8 | 8 | 8 | 64 |
| Water | | | | | | | | | | | | | | | |
| Sewer | | | 11.75 | | | | | | | | | | | | 11.75 |
| Total | 43.5 | | | | | | | | | | | | | 8 Vac | 75.5 |
| 5005
Doug Brooks
Works | | | | 8 | 8 | 8 | 8 | | | 8 | 8 | 8 | 8 | 8 | 83.5 |
| Water | | | | 8 | | | | | | | | | | | |
| Sewer | | | 1 | 8 | | | | | | | | | | | 14 |
| Total | 40 | | | | | | | | | | | | | | 72.80 |



Public Works

Period from 6/18/99 to 6/21/99

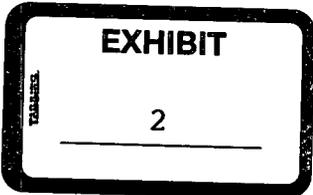
1

| | Sat | Sun | Mon | Tues | Wed | Thurs | Fri | Sat | Sun | Mon | Tues | Wed | Thurs | Fri | Total |
|--------------------------|------|-----|--------|--------|-----|-------|-------|-------|-----|-----|------|-----|-------|-----|--------|
| 5008
Joe Sams | | | | 8 | 8 | 8 | 8 | | | 8 | 8 | 8 | 8 | 8 | 58 |
| Works | | | | | | | | | | | | | | | |
| Water | | | | | | | | | | | | | | | 14 |
| Sewer | | | 11 1/2 | | | | | | | | 6 | | | | 11 1/2 |
| Total | 43.5 | | | | | | | | | | | | | | 83.5 |
| 5009
Erman Kelly | | | | 8 | 3 | 8 | 8 | | | | 8 | 8 | 8 | 8 | 51 |
| Works | | | | | | | | | | | | | | | |
| Water | | | | | 5 | | | | | 8 | | | | | 21 |
| Sewer | | | 11 1/2 | | | | | | | | | | | | 11 1/2 |
| Total | 43.5 | | | | | | | | | | | | | | 83.5 |
| 5010
Charlie Tucker | | | | 4 | 4 | 4 | 4 | 6+4 ✓ | 5 | 8 | 4 | 4 | 5 | 5 | 47 |
| Works | | | | | | | | | | | | | | | |
| Water | | | | | | | | | | | | | | | |
| Sewer | | | 5 1/2 | | | | | | | | | | | | 5 1/2 |
| Property | | | 6 | 4 | 4 | 4 | 8 1/2 | | | 6 | 4 | 4 | 3 | 3 | 40 |
| Total | 47.5 | | | | | | | | | | | | | | 92.5 |
| 5011
Jason Richardson | | | | 8 | 8 | 8 | 8 | 5 1/2 | | | 8 | 8 | 8 | 0 | 45.5 |
| Works | | | | | | | | | | | | | | | |
| Water | | | | | | | | | | | | | | | 8 |
| Sewer | | | 8 | | | | | | | 8 | | | | | 8 |
| Total | 99.5 | | | | | | | | | | | | | | 61.5 |
| 5012
Marty Mastin | | | 5 | 5 | 3 | 8 | 8 | 3 | | 8 | 8 | 8 | 8 | 8 | 62 |
| Works | | | | | | | | | | | | | | | |
| Water | | | 0 | 0 | 3 | 8 | 8 | | | 8 | 8 | 8 | 8 | 8 | 5 |
| Sewer | | | paid | no pay | 5 | | | | | | | | | | |
| Total | 84 | | | | | | | | | | | | | | 67.5 |

75

Summary of July timesheets

| | Pay Period | Pay Date | Administration | Water Distribution | Water Production | Sewer Collection | Public Works | Total Hours |
|-------------------|----------------|----------|----------------|--------------------|------------------|------------------|--------------|-------------|
| Clyde Hicks | June 19-July 2 | 09-Jul | 64 | | | | | 64 |
| | July 3-July 16 | 23-Jul | 79 | 0.5 | | 0.5 | | 80 |
| | | | 143 | 0.5 | | 0.5 | | 144 |
| | | | 0.808189655 | 0.18642241 | | 0.005387931 | | 1 |
| Charleen McIlvain | June 19-July 2 | 09-Jul | 80 | | | | | 80 |
| | July 3-July 16 | 23-Jul | 85.5 | | | | | 85.5 |
| | | | 165.5 | | | | | 165.5 |
| | | | 1 | | | | | 1 |
| Virgie Burns | June 19-July 2 | 09-Jul | 44 | 20 | | 20 | | 84 |
| | July 3-July 16 | 23-Jul | 44 | 22.25 | | 22.25 | | 88.5 |
| | | | 88 | 42.25 | | 22.25 | | 152.5 |
| | | | 0.57704918 | 0.27704918 | | 0.145901639 | | 1 |
| Kathy Brook | June 19-July 2 | 09-Jul | 80 | | | | | 80 |
| | July 3-July 16 | 23-Jul | 83 | | | | | 83 |
| | | | 163 | | | | | 163 |
| | | | 1 | | | | | 1 |
| Jamie Hutchison | June 19-July 2 | 09-Jul | 32 | 8 | | | | 40 |
| | July 3-July 16 | 23-Jul | 24 | 24 | | 24 | | 72 |
| | | | 56 | 32 | | 24 | | 112 |
| | | | 0.5 | 0.28571429 | | 0.214285714 | | 1 |
| Betty Todd | June 19-July 2 | 09-Jul | | 48 | | 32 | | 80 |
| | July 3-July 16 | 23-Jul | | 40 | | 40 | | 80 |
| | | | 0 | 88 | | 72 | | 160 |
| | | | 0 | 0.55 | | 0.45 | | 1 |
| Leroy Conner | June 19-July 2 | 09-Jul | 66 | 12 | | 11.5 | | 89.5 |
| | July 3-July 16 | 23-Jul | 51 | 31 | | 10 | | 92 |
| | | | 117 | 43 | | 21.5 | | 181.5 |
| | | | 0.644628099 | 0.2369146 | | 0.1184573 | | 1 |
| Larry Williams | June 19-July 2 | 09-Jul | 52 | 27 | | 11.5 | | 90.5 |
| | July 3-July 16 | 23-Jul | 26 | 53.5 | | 11.5 | | 91 |
| | | | 78 | 80.5 | | 23 | | 181.5 |
| | | | 0.429752066 | 0.44352617 | | 0.126721763 | | 1 |
| Randy Hutchison | June 19-July 2 | 09-Jul | 45 | 27 | | 11.5 | | 83.5 |
| | July 3-July 16 | 23-Jul | 27 | 44 | | 9 | | 80 |
| | | | 72 | 71 | | 20.5 | | 163.5 |
| | | | 0.440366972 | 0.43425076 | | 0.125382263 | | 1 |
| Lawrence Nickers | June 19-July 2 | 09-Jul | 64 | | | 11.5 | | 75.5 |
| | July 3-July 16 | 23-Jul | 82 | 9.5 | | | | 91.5 |
| | | | 146 | 9.5 | | 11.5 | 0 | 167 |
| | | | 0.874251497 | 0.05688623 | | 0.068862275 | 0 | 1 |
| Doug Brooks | June 19-July 2 | 09-Jul | 58 | 14 | | | | 72 |
| | July 3-July 16 | 23-Jul | 34 | 47 | | 3.5 | | 84.5 |
| | | | 92 | 61 | | 3.5 | | 156.5 |
| | | | 0.587859425 | 0.38977636 | | 0.022364217 | | 1 |
| Joe Sams | June 19-July 2 | 09-Jul | 58 | 14 | | 11.5 | | 83.5 |
| | July 3-July 16 | 23-Jul | 49 | 25 | | 9 | | 83 |
| | | | 107 | 39 | | 20.5 | | 166.5 |
| | | | 0.642642643 | 0.23423423 | | 0.123123123 | | 1 |



Summary of July timesheets

| | | | | | | | |
|-----------------|----------------|--------|-------------|------------|-------------|-------------|---------|
| Erman Kelly | June 19-July 2 | 09-Jul | 51 | 21 | 11.5 | | 83.5 |
| | July 3-July 16 | 23-Jul | 58 | 23.5 | 8 | | 89.5 |
| | | | 109 | 44.5 | 19.5 | | 173 |
| | | | 0.630057803 | 0.25722543 | 0.112716763 | | 1 |
| Charlie Tucker | June 19-July 2 | 09-Jul | 47 | | 5.5 | 40 | 92.5 |
| | July 3-July 16 | 23-Jul | 41 | 12.5 | 1.5 | 40.5 | 95.5 |
| | | | 88 | 12.5 | 7 | 80.5 | 188 |
| | | | 0.468085106 | 0.06648936 | 0.037234043 | 0.428191489 | 1 |
| Jason Richardso | June 19-July 2 | 09-Jul | 45.5 | 8 | 8 | | 61.5 |
| | July 3-July 16 | 23-Jul | | | | | 0 |
| | | | 45.5 | 8 | 8 | | 61.5 |
| | | | 0.739837398 | 0.1300813 | 0.130081301 | | 1 |
| Marty Mastin | June 19-July 2 | 09-Jul | 70 | 5 | | | 75 |
| | July 3-July 16 | 23-Jul | 59.5 | 23.5 | 8 | | 91 |
| | | | 129.5 | 28.5 | 8 | 0 | 166 |
| | | | 0.780120482 | 0.17168675 | 0.048192771 | 0 | 1 |
| Joe Hutchison | June 19-July 2 | 09-Jul | | | | | 0 |
| | July 3-July 16 | 23-Jul | | | | | 0 |
| | | | 0 | 0 | | | 0 |
| | | | #DIV/0! | #DIV/0! | | | #DIV/0! |



COMMONWEALTH OF KENTUCKY
PUBLIC SERVICE COMMISSION
730 SCHENKEL LANE
POST OFFICE BOX 615
FRANKFORT, KY. 40602
(502) 564-3940

October 1, 1999

To: All parties of record

RE: Case No. 99-300

We enclose one attested copy of the Commission's Order in
the above case.

Sincerely,

A handwritten signature in cursive script that reads "Stephanie Bell".

Stephanie Bell
Secretary of the Commission

SB/sa
Enclosure

Virgie Florence Wells
Mayor
City of Cynthiana
P.O. Box 67
Cynthiana, KY 41031

William R. Toadvine
President
Harrison County Water
Association, Inc.
P. O. Box 215
Cynthiana, KY 41031

Bruce F. Clark,
Counsel for City of Cynthiana
Stites and Harbison
421 West Main Street
P.O. Box 634
Frankfort, KY 40602 0634

Dorothy Jo Mastin,
Counsel for Harrison County Water
9 South Walnut Street
Cynthiana, KY 41031

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

PROPOSED ADJUSTMENT OF THE WHOLESALE)
WATER SERVICE RATES OF THE CITY OF) CASE NO. 99-300
CYNTHIANA, KENTUCKY)

ORDER

The Commission, on its own motion, HEREBY ORDERS that:

1. Ordering Paragraph 2 of the Commission's Order of July 22, 1999 is hereby vacated.
2. The procedural schedule set forth in Appendix A to this Order shall be followed.
3. All requests for information and responses thereto shall be appropriately indexed. All responses shall include the name of the witness who will be responsible for responding to the questions related to the information provided, with copies to all parties of record and 6 copies to the Commission.
4. At any hearing in this matter, neither opening statements nor summarization of direct testimony shall be permitted.
5. Motions for extensions of time with respect to the schedule herein shall be made in writing and will be granted only upon a showing of good cause.
6. All documents that this Order requires to be filed with the Commission shall be served upon the opposing party.
7. To be timely filed with the Commission, a document must be received by the Secretary of the Commission within the specified time for filing except that any

document shall be deemed timely filed if it has been transmitted by United States express mail, or by other recognized mail carriers, with the date the transmitting agency received said document from the sender noted by the transmitting agency on the outside of the container used for transmitting, within the time allowed for filing.

8. Service of any document or pleading shall be made in accordance with Administrative Regulation 807 KAR 5:001, Section 3(7), and Kentucky Civil Rule 5.02.

9. The city of Cynthiana, Kentucky ("Cynthiana") shall, no later than November 15, 1999, file with the Commission the original and 6 copies of the information listed in Appendix B, with a copy to all parties of record. Each copy of the requested information shall be placed in a bound volume with each item tabbed. When a number of sheets are required for an item, each sheet should be appropriately indexed, for example, Item 1(a), Sheet 2 of 6. Cynthiana shall include with each response the name of the witness who will be responsible for responding to questions relating to the information provided. Careful attention should be given to copied material to ensure its legibility.

10. Nothing contained herein shall prevent the Commission from entering further Orders in this matter.

Done at Frankfort, Kentucky, this 1st day of October, 1999.

By the Commission

ATTEST:


Executive Director

APPENDIX A

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE
COMMISSION IN CASE NO. 99-300 DATED OCTOBER 1, 1999

- Cynthiana shall file its response to the Commission's initial request for information no later than..... 11/15/1999
- All supplemental requests for information to Cynthiana shall be served upon Cynthiana no later than..... 11/29/1999
- Cynthiana shall file with the Commission and serve upon all parties of record its responses to the supplemental requests for information no later than..... 12/13/1999
- Any second set of supplemental requests for information shall be served upon Cynthiana no later than..... 12/27/1999
- Cynthiana shall file with the Commission and serve upon all parties of record its responses to all supplemental requests for information no later than..... 01/10/2000
- Intervenor testimony, if any, shall be filed with the Commission and served upon all parties of record in verified prepared form no later than..... 01/24/2000
- All requests for information to intervenors shall be served no later than..... 02/07/2000
- Intervenors shall file with the Commission and serve upon all parties of record its responses to requests for information no later than..... 02/21/2000
- Public Hearing is to begin at 9:30 a.m., Eastern Standard Time, in the Commission's offices at 211 Sower Boulevard, Frankfort, Kentucky, for the purpose of cross-examination of witnesses..... 03/01/2000

APPENDIX B

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE
COMMISSION IN CASE NO. 99-300 DATED OCTOBER 1, 1999

1. Provide in written verified form the direct testimony of each witness that Cynthiana intends to call at the scheduled hearing in this matter.
2. Provide the independent auditor's reports for Cynthiana's water and sewer operations for the fiscal years ending June 30, 1998 and June 30, 1999.
3. State the test period upon which Cynthiana bases its proposed rate adjustment.
4. Provide the general ledgers for Cynthiana's water and sewer operations for the proposed test period. These general ledgers shall include all check registers and spreadsheets used to record and track financial transactions.
5. For each outstanding revenue bond issuance related to Cynthiana's water and sewer operations:
 - a. Provide the bond ordinance or resolution authorizing the issuance of revenue bonds.
 - b. Provide an amortization schedule.
 - c. Provide a detailed explanation of why the debt was incurred.
6. List all persons on Cynthiana's payroll during the proposed test period. For each employee, state his or her job duties, total wages paid during the fiscal year, current salary or wage rate, and the percentage of work hours spent performing duties for each city division (e.g., water, sewer, police department, public works) during the fiscal year. If Cynthiana's records do not permit the allocation of an employee's work

hours among city divisions, provide an estimate for each employee and explain how Cynthiana derived the estimate.

7. For each employee listed in Item 6, describe how Cynthiana allocated his or her payroll and payroll overhead charges to each city division for the proposed test period. This response shall include a detailed explanation of all allocation procedures. Payroll overhead charges include payroll taxes, health insurance premiums, pension costs, and any other employee benefit costs.

8. a. List all joint or shared costs that Cynthiana incurred during the proposed test period. For each cost, list the vendor, total expense amount, amounts allocated per division, and the basis for allocation.

b. Describe the procedures to allocate joint and shared costs among Cynthiana's divisions for the proposed test period.

c. Provide all internal memorandum, policy statements, correspondence and documents related to the allocation of joint and shared costs.

9. Provide detailed depreciation schedules for the water and sewer divisions. A separate schedule shall be provided for each division.

10. Provide an adjusted trial balance and audit adjustments for the proposed test period. The trial balance shall be traced and referenced directly to the general ledger requested in Item 4.

11. Provide the "Enterprise Funds Uniform Financial Information Report" that Cynthiana submitted to the Kentucky Department of Local Government for the fiscal years ending June 30, 1998 and June 30, 1999.

12. a. Complete the table below:

| Water Main Size | Total Miles Of Line | Miles Of Lines Jointly Used By Both Cynthiana & Harrison County |
|-----------------|---------------------|---|
| 16" | | |
| 14" | | |
| 12" | | |
| 10" | | |
| 8" | | |
| 6" | | |
| 4" | | |
| 2" | | |

b. Who paid for the water main(s) that Cynthiana uses to deliver water to Harrison County Water Association ("Harrison County")?

c. Besides Harrison County, what other customers, if any, does Cynthiana serve from the water mains that it uses to deliver water to Harrison County?

d. For each customer listed in response to Item 12(c), provide his or her monthly water usage for each of the previous 24 months.

13. a. What is the maximum capacity of Cynthiana's water treatment plant?

b. (1) How much of Cynthiana's total water treatment plant capacity is currently reserved for Harrison County?

(2) What changes, if any, does Cynthiana expect within the next three years in the level of water treatment capacity reserved for Harrison County? Why does Cynthiana expect these changes?

14. a. Who owns the master meter(s) through which Cynthiana provides water to Harrison County?

b. Through how many master meters does Cynthiana provide water service to Harrison County?

c. Who is responsible for maintaining these master meters?

15. Provide a system map showing all Cynthiana facilities that are used to serve Harrison County.

16. What portion, if any, of Cynthiana's water main(s) that serve Harrison County is gravity fed?

17. What is Cynthiana's current rate for water service to Harrison County?

18. What is Cynthiana's proposed rate for water service to Harrison County?

19. For each month of the previous 24 months, state Cynthiana's monthly water sales (in gallons) sales to Harrison County.

20. Complete the table below:

| City of Cynthiana | Gallons for Test Period |
|------------------------------|-------------------------|
| Plant Use | |
| Line Loss (Unaccounted for) | |
| Sales to Retail | |
| Sales to Harrison County | |
| Total Produced and Purchased | |
| Total Sold | |

21. What types of water service (e.g., service to municipal buildings, fire protection, etc.) are included in the unmetered amount? For each type of service, estimate the percentage of the total unmetered amount.

22. a. When did Cynthiana begin selling water to Harrison County?

b. Who was responsible for developing the rate for water service that Cynthiana charged Harrison County when it first provided water service?

c. How did Cynthiana determine its initial rate for water service to Harrison County?

23. a. When did Cynthiana first prepare or commission a cost-of-service study to determine the appropriate rate for its water service to Harrison County?

b. (1) Who prepared this study?

(2) Provide the preparer's curriculum vitae?

(3) List all cases before the Commission in which the preparer has submitted a cost-of-service study.

(4) List all utilities (municipal or public) for which the preparer has prepared a cost-of-service study. For each utility, identify the type of utility service (water or sewer) for which the report was prepared.

c. Provide a copy of this study.

24. a. Has Cynthiana subsequently prepared or commissioned a cost-of-service study to determine the appropriate rate for its water service to Harrison County?

b. For each subsequent study:

(1) Who prepared this study?

(2) Provide the preparer's curriculum vitae?

(3) List all cases before the Commission in which the preparer has submitted a cost-of-service study.

(4) List all utilities (municipal or public) for which the preparer has prepared a cost-of-service study. For each utility, identify the type of utility service (water or sewer) for which the report was prepared.

(5) Provide a copy of the cost-of-service study.



COMMONWEALTH OF KENTUCKY
PUBLIC SERVICE COMMISSION
730 SCHENKEL LANE
POST OFFICE BOX 615
FRANKFORT, KENTUCKY 40602
www.psc.state.ky.us
(502) 564-3940
Fax (502) 564-1582

Ronald B. McCloud, Secretary
Public Protection and
Regulation Cabinet

Helen Helton
Executive Director
Public Service Commission

Paul E. Patton
Governor

September 24, 1999

Hon. Virgie F. Wells
City of Cynthiana
P.O. Box 67
Cynthiana, Kentucky 41031

Bruce F. Clark, Esq.
Stites and Harbison
421 West Main Street
P.O. Box 634
Frankfort, Kentucky 40602-0634

Mr. William R. Toadvine
Harrison County Water Association
P.O. Box 215
Cynthiana, Kentucky 41031

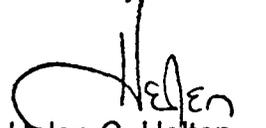
Dorothy Jo Mastin, Esq.
9 South Walnut Street
Cynthiana, Kentucky 41031

Re: Case No. 99-300
City of Cynthiana, Kentucky

Ladies and Gentlemen:

The enclosed memorandum has been filed in the record of the above-referenced case. Any comments regarding this memorandum's contents should be submitted to the Commission within five days of receipt of this letter. Any questions regarding this memorandum should be directed to Gerald Wuetcher, Commission counsel, at (502) 564-3940, Extension 259.

Sincerely,


Helen C. Helton
Executive Director



gw
Enclosure
cc: Parties of Record

C:\My Documents\PSC Cases\1999\99-300\990924_Informal Conference Memorandum_Cover Letter.doc



AN EQUAL OPPORTUNITY EMPLOYER M/F/D

INTRA-AGENCY MEMORANDUM

KENTUCKY PUBLIC SERVICE COMMISSION

TO: Case File No. 99-300
FROM: Gerald Wuetcher *GW*
Staff Attorney
DATE: September 24, 1999
RE: Conference of September 24, 1999

On September 24, 1999, the Commission held a conference in this case in the Commission's offices in Frankfort, Kentucky. Present were:

| | | |
|----------------------|---|-----------------------------------|
| Bruce Clark | - | City of Cynthiana |
| Peggy Tipton | - | City of Cynthiana |
| Michelle Whittington | - | City of Cynthiana |
| Virgie Wells | - | City of Cynthiana |
| Dorothy Jo Mastin | - | Harrison County Water Association |
| Danny Northcutt | - | Harrison County Water Association |
| William Toddvine | - | Harrison County Water Association |
| Brent Kirtley | - | Commission Staff |
| Gerald Wuetcher | - | Commission Staff |

Upon the City of Cynthiana's motion, the Commission by Order dated August 25, 1999, ordered that the conference be convened.

Beginning the conference, Mr. Wuetcher stated that Commission Staff would prepare minutes of the conference for the case record, that a copy of these minutes would be provided to all parties, and that all parties would be given an opportunity to submit written comments upon those minutes.

Mr. Wuetcher proposed that Case No. 99-131 be used as a model for this proceeding. He invited the parties to review the list of information that the Commission required the municipal utility in that proceeding to furnish in support of its proposed rate adjustment. After reviewing the list, neither party objected to the use of this list. The parties then discussed a procedural schedule. The agreed schedule is attached.

The conference then adjourned.

Attachment

cc: Parties of Record

PROPOSED PROCEDURAL SCHEDULE

- Cynthiana shall file its response to the Commission's initial request for information no later than..... 11/15/1999
- All supplemental requests for information to Cynthiana shall be served upon Cynthiana no later than..... 11/29/1999
- Cynthiana shall file with the Commission and serve upon all parties of record its responses to the supplemental requests for information no later than..... 12/13/1999
- Any second set of supplemental requests for information shall be served upon Cynthiana no later than..... 12/27/1999
- Cynthiana shall file with the Commission and serve upon all parties of record its responses to all supplemental requests for information no later than..... 01/10/2000
- Intervenor testimony, if any, shall be filed with the Commission and serve upon all parties of record in verified prepared form no later than..... 01/24/2000
- All requests for information to intervenors shall be served no later than..... 02/07/2000
- Intervenors file with the Commission and serve upon all parties of record its responses to requests for information no later than..... 02/21/2000
- Public Hearing is to begin at 9:30 a.m., Eastern Time, in the Commission's offices at 211 Sower Boulevard, Frankfort, Kentucky, for the purpose of cross-examination of witnesses..... 03/01/2000



COMMONWEALTH OF KENTUCKY
PUBLIC SERVICE COMMISSION

730 SCHENKEL LANE
POST OFFICE BOX 615
FRANKFORT, KY. 40602
(502) 564-3940

September 8, 1999

To: All parties of record

RE: Case No. 99-300

We enclose one attested copy of the Commission's Order in
the above case.

Sincerely,

A handwritten signature in cursive script that reads "Stephanie D. Bell".

Stephanie Bell
Secretary of the Commission

SB/sa
Enclosure

Virgie Florence Wells
Mayor
City of Cynthiana
P.O. Box 67
Cynthiana, KY 41031

William R. Toadvine
President
Harrison County Water
Association, Inc.
P. O. Box 215
Cynthiana, KY 41031

Bruce F. Clark,
Attorney
Stites and Harbison
421 West Main Street
P.O. Box 634
Frankfort, KY 40602 0634

Dorothy Jo Mastin,
Counsel for Harrison County Water
9 South Walnut Street
Cynthiana, KY 41031

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

PROPOSED ADJUSTMENT OF THE WHOLESALE)
WATER SERVICE RATES OF THE CITY OF) CASE NO. 99-300
CYNTHIANA, KENTUCKY)

ORDER

The Commission, on its own motion, HEREBY ORDERS that the informal conference in this matter previously scheduled for September 8, 1999 shall be held on September 24, at 1:00 p.m., Eastern Daylight Time, in Conference Room 1 of the Commission's offices at 730 Schenkel Lane, Frankfort, Kentucky.

Done at Frankfort, Kentucky, this 8th day of September, 1999.

By the Commission

ATTEST:


Executive Director



COMMONWEALTH OF KENTUCKY
PUBLIC SERVICE COMMISSION

730 SCHENKEL LANE
POST OFFICE BOX 615
FRANKFORT, KY. 40602
(502) 564-3940

August 25, 1999

Virgie Florence Wells
Mayor
City of Cynthiana
P.O. Box 67
Cynthiana, KY. 41031

William R. Toadvine
President
Harrison County Water
Association, Inc.
P. O. Box 215
Cynthiana, KY. 41031

RE: Case No. 99-300

We enclose one attested copy of the Commission's Order in
the above case.

Sincerely,

A handwritten signature in cursive script that reads "Stephanie Bell".

Stephanie Bell
Secretary of the Commission

SB/sa
Enclosure

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

PROPOSED ADJUSTMENT OF THE WHOLESAL)
WATER SERVICE RATES OF THE CITY OF) CASE NO. 99-300
CYNTHIANA, KENTUCKY)

ORDER

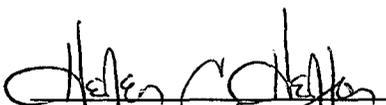
The City of Cynthiana, Kentucky ("Cynthiana") having moved for an informal conference in this matter and the Commission finding that good cause exists to grant the motion, IT IS HEREBY ORDERED that:

1. Cynthiana's motion for an informal conference is granted.
2. An informal conference shall be held in this matter on September 8, 1999 at 10:00 a.m., Eastern Daylight Time, in Conference Room 1 of the Commission's offices at 730 Schenkel Lane, Frankfort, Kentucky, for the purpose of discussing a procedural schedule and of identifying the documents and information that Cynthiana should file in support of its proposed rate adjustment.

Done at Frankfort, Kentucky, this 25th day of August, 1999.

By the Commission

ATTEST:


Executive Director

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

RECEIVED
AUG 20 1999
PUBLIC SERVICE
COMMISSION

In the Matter of :

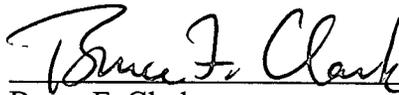
PROPOSED ADJUSTMENT OF THE)
WHOLESALE WATER SERVICE RATES OF) ADMINISTRATIVE
THE CITY OF CYNTHIANA, KENTUCKY) CASE NO. 99-300

**RESPONSE OF CITY OF CYNTHIANA
TO COMMISSION ORDER DATED JULY 22, 1999**

Comes the City of Cynthiana, Kentucky, by and through counsel, and in lieu of submitting a formal response to the Commission's Order dated July 22, 1999, which would require the City to respond to regulations with unnecessary and inapplicable provisions (807 KAR 5:001, Section 10), the City moves the Commission to conduct an informal conference at which the parties can better identify the specific information needed by the Commission and Harrison County Water Association to evaluate the proposed rate increase by the City.

The City, through counsel, has undertaken to evaluate responses to the Commission's Order, but does not believe that the responses (which are not yet-complete) would be particularly beneficial to the hearing process. The City will provide these responses at the informal conference, if requested to do so.

Respectfully submitted,

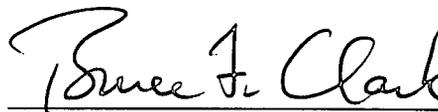


Bruce F. Clark
STITES & HARBISON
421 West Main Street
P. O. Box 634
Frankfort, KY 40602-0634
Telephone: (502) 223-3477
COUNSEL FOR APPLICANT

CERTIFICATE OF SERVICE

I hereby certify that a copy of the foregoing was served by first class mail, postage prepaid, upon the following parties of record, this 20th day of August, 1999.

William R. Toadvine
President
Harrison County Water Association, Inc.
P. O. Box 215
Cynthiana, KY 41031



Bruce F. Clark



COMMONWEALTH OF KENTUCKY
PUBLIC SERVICE COMMISSION

730 SCHENKEL LANE
POST OFFICE BOX 615
FRANKFORT, KY. 40602
(502) 564-3940

July 22, 1999

Virgie Florence Wells
Mayor
City of Cynthiana
P.O. Box 67
Cynthiana, KY. 41031

William R. Toadvine
President
Harrison County Water
Association, Inc.
P. O. Box 215
Cynthiana, KY. 41031

.RE: Case No. 99-300

We enclose one attested copy of the Commission's Order in
the above case.

Sincerely,


Stephanie Bell
Secretary of the Commission

SB/sa
Enclosure

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

PROPOSED ADJUSTMENT OF THE)
WHOLESALE WATER SERVICE RATES OF) CASE NO. 99-300
THE CITY OF CYNTHIANA, KENTUCKY)

O R D E R

The city of Cynthiana, Kentucky ("Cynthiana") has proposed to adjust its existing rate for wholesale water service to Harrison County Water Association ("Harrison County"). Cynthiana proposes that these revisions become effective on and after August 1, 1999. Harrison County has requested that the Commission suspend and investigate the proposed rate adjustment and has further moved to intervene in any Commission investigation of the proposed rate adjustment.

Having considered the proposed rate adjustment and being otherwise sufficiently advised, the Commission finds that, pursuant to KRS 278.190, further proceedings are necessary to determine the reasonableness of the proposed rate.

The Commission further finds that Harrison County has a special interest in this proceeding which is not otherwise adequately represented and that its intervention is likely to present issues or to develop facts that assist the Commission in fully considering the matter without unduly complicating or disrupting this proceeding.

IT IS THEREFORE ORDERED that:

1. Cynthiana's proposed rates are suspended for five months from August 1, 1999 up to and including December 31, 1999.

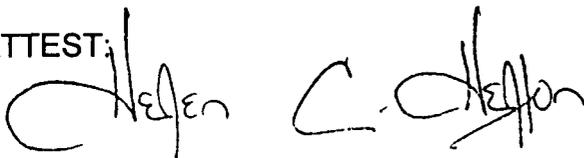
2. Within 30 days of the date of this Order, Cynthiana shall submit the information required by Administrative Regulation 807 KAR 5:001, Section 10. To the extent that Cynthiana considers any of the requirements of this regulation to be onerous or inapplicable, it may petition for deviation.

3. Harrison County is made a party to this proceeding. Any party filing testimony, exhibits, pleadings, correspondence or any other documents with the Commission shall serve a copy of such documents on Harrison County.

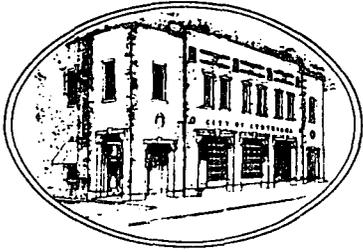
Done at Frankfort, Kentucky, this 22nd day of July, 1999.

By the Commission

ATTEST:



Executive Director



CITY OF CYNTHIANA

P.O. BOX 67
CYNTHIANA, KENTUCKY 41031
(606) 234-7150

RECEIVED

JUL 08 1999

PUBLIC SERVICE
COMMISSION

July 7, 1999

Jordon Neal
Public Service Commission
730 Schenkel Lane
P. O. Box 615
Frankfort, KY 40601

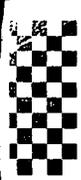
Dear Mr. Neal:

Per your telephone conversation today with Charleen McIlvain, the City Clerk, I am requesting that the City of Cythiana water rate change be effective August 1, 1999. This will allow us time to implement the ordinance.

Thank you very much for your assistance with this matter.

Sincerely,

Virgie Florence Wells
Virgie Florence Wells
Mayor



Harrison County Water Association

P.O. Box 215
U.S. 27 South
Cynthiana, Kentucky 40301

Phone 606-234-4284

July 07, 1999

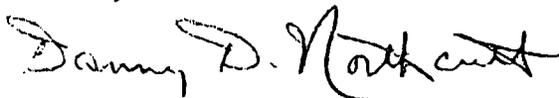
Ms. Helen Helton
Executive Director
Commonwealth of Kentucky
Public Service Commission
730 Schenkel Lane
P.O. Box 615
Frankfort, Kentucky 40601

Dear Ms. Helton:

This City of Cynthiana has requested a rate increase from its large water users which affects us greatly. We have asked questions and asked for information regarding this increase. At the present time we have not heard from Cynthiana.

We request you intervene and suspend the rate increase until further notice.

Sincerely,



Danny D. Northcutt
Manager
Harrison County Water Association

C60-688



CITY OF CYNTHIANA

P.O. BOX 67
CYNTHIANA, KENTUCKY 41031
(606) 234-7150

RECEIVED

JUN 08 1999

PUBLIC SERVICE
COMMISSION

June 2, 1999

Ms. Helen Helton
Executive Director
Commonwealth of Kentucky
Public Service Commission
730 Schenel Lane
P.O. Box 615
Frankfort, Kentucky 40601

Case No. 99-300

RECEIVED

JUN 3 1999

PSC
FINANCIAL ANALYSIS

Dear Ms. Helton:

Attached herewith is a copy of a letter that I sent to the Harrison County Water Association this date, for your information.

The City of Cynthiana is long over due on rate increases to our large water users, so it becomes necessary to increase our rates because of the tremendous loss incurred by the City of Cynthiana.

The City of Cynthiana appreciates your consideration in this matter. Please advise us as to your findings so we can start the ordinance process very soon.

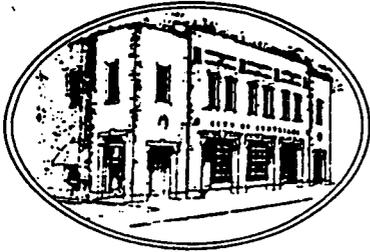
Thank you.

Yours truly,

Virgie Florence Wells
Mayor
City of Cynthiana, Kentucky

VFW/kb

Attachment



CITY OF CYNTHIANA

P.O. BOX 67
CYNTHIANA, KENTUCKY 41031
(606) 234-7150

June 2, 1999

Mr. William R. Toadvine
President
Harrison County Water Association
P.O. Box 215
Cynthiana, Kentucky 41031

Dear Mr. Toadvine:

Thank you for the time we shared last Friday, May 28, 1999, discussing water problems. I appreciate your understanding of the change in the rate schedule for the Harrison County Water Association. The City finds that we can no longer sell water at \$1.27 per 1000 gallons to the large users because we are incurring a loss. I was pleased that you understood that the City has no choice but a rate increase. The City is forced to drop the 4th tier in our water rates as a result of this loss.

Regarding the questions we discussed, I am compiling information and the answers will be forthcoming – hopefully, by the time of your regular meeting.

Today, I am filing these rate changes with the Public Service Commission.

Yours truly,

A handwritten signature in cursive script that reads "Virgie Florence Wells". The signature is written in dark ink and is positioned above the printed name.

Virgie Florence Wells
Mayor
City of Cynthiana, Kentucky

VFW/kb

Form for filing Rate Schedules

For City of Cynthiana
Community, Town or City

P.S.C. NO. _____

SHEET NO. _____

CANCELLING P.S.C. NO. _____

SHEET NO. _____

City of Cynthiana

Name of Issuing Corporation

CLASSIFICATION OF SERVICE

| | RATE
PER UNIT |
|----------------------------------|-----------------------------|
| First - 2,000 gallons - - - - - | \$8.05 minimum |
| 2,000 - 10,000 gallons - - - - - | \$3.05 per 1,000
gallons |
| Over 10,000 gallons - - - - - | \$1.61 per 1,000
gallons |

DATE OF ISSUE _____

DATE EFFECTIVE _____

ISSUED BY _____
Name of Officer

TITLE _____

Issued by authority of an Order of the Public Service Commission of Kentucky
in Case No. _____ dated _____.